

Ten questions you never dared ask your Independent Examiner!

We often get asked about the process of independent examination of annual accounts. Here are the answers to some of the most frequently asked questions.

1 What is Independent Examination?

Independent Examination is the name of the verification procedures that we undertake on the annual accounts of charitable organisations, to check the underlying accounting records and to ensure that the annual accounts agree with these records. It is a stringent process that follows strict guidelines set down by the Charity Commission.

2 My Independent Examiner has said he will send me a letter of engagement - what is that?

The letter of engagement lays out the terms and conditions of what the independent examiner has agreed to do, and what the trustees are expected to do in relation to the accounts; it's a bit like a mini contract and makes it clear who is responsible for what.

3 Why does the Independent Examiner ask for our constitution and minutes?

The independent examiner has to ensure that you are spending your money on the objects of your organisation (ie the aims as written down in your constitution), otherwise you would be acting in breach of trust. We check the minutes for the same reason and to ascertain any major events, plans and decisions that have been made.

4 What does the Independent Examiner do with all our invoices?

We check them through to see that the money has been spent on the items recorded in your cashbook or computer records, and that this is within the terms of any funding agreement. We also have to check that you are keeping up to date and complete records of your income and expenditure transactions, (including details such as date and the nature of the transaction.)

5 Why do Independent Examiners ask to see the terms and conditions of grants?

Many funders give grants for specific purposes, and these are known as restricted funds. We must satisfy ourselves firstly whether a grant is restricted or unrestricted and secondly, if restricted, that it is being spent correctly on the specific purpose.

6 Why do you ask about management committee remuneration?

Generally speaking management committee members of charitable organisations are not allowed to be paid for work undertaken for the organisation because of the potential for conflict of interest. We have to disclose the fact, if management committee members are being paid, in the notes to the accounts.

7 Why do Independent Examiners ask about management committee expenses?

It is good practice for organisations to pay management committee members their expenses (eg travel to a committee meeting) and every organisation should have a policy about this. As with remuneration we have to ensure that management committee expenses are disclosed in the notes in the interests of making charitable organisations accountable.

8 What is a qualified independent examination report?

All independent examiners have to include a report which is attached to the accounts.

If the report is **unqualified** it means that the independent examiner has not found anything significantly wrong in the accounts. However he **does** have to **qualify** the report if he has come across anything significantly wrong. The standard independent examiner statement reads as follows:

In connection with my examination, no matter has come to my attention:

1) which gives me reasonable cause to believe that in any material respect the requirements:

a) to keep accounting records in accordance with section 41 of the Act; and

b)

b) to prepare accounts which accord with the accounting records and to comply with the accounting requirements of the Act

have not been met; or

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

Anything different from the above statements means that the examiner has qualified his report; he should also give a reason for the qualification.

Finally independent examiners also have a duty to report direct to the Charity Commission if, in their opinion, charity trustees have been responsible for deliberate or reckless misconduct

9 How do you become an Independent Examiner?

Independent examiners should have relevant practical accountancy experience, be familiar with accountancy methods and be completely independent of the organisation being examined. The examiner has to follow 12 specific directions issued by the Charity Commission and record all their work on working papers.

10 What is a management letter?

Many independent examiners (WYCAS included) send a letter to the management committee after the independent examination making recommendations for improvements; this is known as the management letter. WYCAS also offers support and training in putting these recommendations into place in order to improve the financial procedures of the organisation. If you would like to know anything else about independent examination do give us a ring.