



East Riding Voluntary Action Services (ERVAS) Limited

Community Accountancy Service

Delivering quality accounting services and training to the voluntary sector

Good Practice Guide:

13 – Getting ready to have your accounts checked



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Introduction

There are various kinds of external checks that charities and charitable companies can have on their annual accounts; which one is appropriate for your organisation depends on your size, in terms of turnover, and your legal status (see table below). However it is important to remember that if one of your funder's or your governing document requires a more stringent level of checking than is required by law, then that will override the Charity Commission or Companies House requirement.

Legal Requirements for 'Checking the Books' at the end of the year

Since the 1st April 2008, the legal requirement for external scrutiny for charitable companies and non-company charities is the same.

The current requirements for external scrutiny are as follows:

Financial years from 01 April 2009	
All Charities (including Company Charities)	
Band	Requirement
Income under £25,000	No external scrutiny required
Income between £25,000 to £250,000	Independent Examination required
Income between £250,000 and £500,000	Independent Examination required, Independent Examiner must be a member of an approved professional body
Income over £500,000	Audit by Registered Auditor required

If your organisation is not a registered charity or company then you should check your constitution and follow the procedure that it states.

What is the difference between the different Types of scrutiny?

Audit

An Audit is the scrutiny of accounts by a registered auditor who must apply accounting standards in accordance with Audit Practice Note 11 produced by the Auditing Practices Board.

An Audit report (if satisfactory) normally confirms that the accounts either:

- ⊗ give a true and fair view (if on accruals basis)
- ⊗ are properly presented (if on receipts and payments basis).

The auditor has the statutory right to:-

- ⊗ have access at all times to organisation's books, accounts and all related documentation.
- ⊗ require relevant information and explanations from organisation's directors/trustees and employees.

Independent Examination

An Independent Examination - is a less onerous form of scrutiny than an audit. However it is still very thorough and independent examiners are expected to follow the guidance of the Charity Commission as laid out in the Directions and Guidance notes issued by the Commission. Examiners report on whether specific matters have come to their attention, and the Regulations set out the required contents of the examiner's report. There is a statutory requirement on an examiner to "whistle blow" to the Charity Commission if he/she believes that one or more of the Trustees has been responsible for deliberate or reckless misconduct in administering the organisation

An independent examination gives a negative assurance that accounts have no major problems – after completing all the required inspection procedures. Specifically, the examiner declares:

- ⊗ No evidence of failure to complete accounting records
- ⊗ No evidence of accounts not being in accord with the records
- ⊗ No evidence that accounts fail to comply with the Act
- ⊗ No further information needs to be disclosed for proper understanding.

What do you have to provide for the person checking your books?

Accountants are expensive and charge by the hour, so the more you can prepare for the end of year accounts the cheaper it should be. The following is a checklist of items that the external checker will probably require. In particular make sure that documents are filed in a clear rational way so that they can be easily found. Not all the documents in the checklist below will be relevant to your organisation; for example if you do not employ anyone you do not need to provide the PAYE documents.

Check list for documents required for annual accounts

- ⊗ Constitution/Rules/Memorandum and Articles
- ⊗ Previous Year's Annual Accounts and Report
- ⊗ Signed Letter of Engagement
- ⊗ Copies of Minutes for the year
- ⊗ Leaflets/Newsletter if available
- ⊗ Copy of Charity Registration Document/company registration document
- ⊗ Budget for the year if available
- ⊗ Bank mandates for all accounts (indicate number of accounts)
- ⊗ Money laundering statutory requirement – Copies of Passport/Driving Licence and Utility Bill from the Trustees/Directors
- ⊗ Bank statements for all accounts including statement for month after year end. These should be filed in statement number order
- ⊗ Cheque books for all accounts including one for the month after the year end
- ⊗ Paying in books for all accounts
- ⊗ A complete list of all staff employed by organisation during the year

- ☼ Monthly printouts from Payroll Bureau OR the following for each member of staff employed:
 - P11
 - P35
 - P14
 - P45/46
 - P32/HMRC payment booklet
- ☼ The cash analysis book fully written up, correctly analysed and totalled for the year or, if computerised, disc or printout of all transactions
- ☼ Cheque expenditure Invoices filed in order of cheque number and with cheque number written on each invoice paid
- ☼ Income receipts
- ☼ Petty cash book fully written up, correctly analysed and totalled
- ☼ Written confirmation that on the last day of the financial year, the amount of cash in the tin agreed with the balance of cash in hand shown in the petty cash book
- ☼ Petty cash receipts filed in order of reference number with reference number written on each receipt or voucher
- ☼ Full terms and conditions of any grant, contract or service level agreement (this is very important)
- ☼ Documents showing land or building ownership
- ☼ Copy of most recent valuation of land or building
- ☼ Copy of any loan/lease agreements
- ☼ Details of fixed assets e.g. Vehicles/Computers
- ☼ Details of anyone owing money to you at the year end (debtors)
- ☼ Details of anyone you owe money to at the year end (creditors)
- ☼ List of Trustees - names and position for the year, also dates of joining/leaving the committee if during the year that the accounts cover
- ☼ Name, address and telephone number of person to be contacted with any queries

How to find a Registered Auditor

Most commercial firms of accountants are also registered auditors; however not all of them are fully conversant with charity regulations; it is a good idea to ask them what proportion of their work is charity work, and to draw your own conclusions; commercial company accounts are very different from charity accounts, so you do need to ensure they have that particular area of expertise. Also get a quote from them, and one or two others, so that you can make comparisons; and always ask for references from clients who are charities/voluntary organisations.

How do you choose an Independent Examiner?

The first thing to do is to check whether your organisation actually needs an independent examination (see above). It may not be necessary if you are a very small charity or a small charitable company. Having established that you need one, what qualities should you look for? The description of an independent examiner in the Charities Act 2011 reads as follows:

“an independent examiner is 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”.

So what does this mean?

Independent - For an examiner to be independent he/she should have no connection with the organisation which might bias their opinion on the accounts, so trustees and employees, major funders and beneficiaries of the charity should not be considered, along with any of their close relatives.

Requisite Ability - The examiner need not be a qualified accountant (although above a turnover of £250,000 it is a requirement that you use a qualified accountant); at ERVAS we advise organisations to ask if the prospective examiner is familiar with the Charity Commission booklet called 'The carrying out of an Independent Examination'; if they look at you completely blankly, it may not be a good idea to pursue them! And secondly to particularly check out what knowledge they have of charity accounting.

Experience - Finally they need to have real hands-on experience of accounting (ideally charity accounting) and of doing independent examinations. You may want to ask them for a reference from a previous charity/voluntary organisation, in order to be satisfied that they have this, unless they are well-known to you already.

How to find an Independent Examiner

How do you begin to find someone with these qualities; obviously some accounting firms do independent examinations, and retired accountants are also a possibility. At ERVAS we also undertake independent examinations for groups with less than £500,000 turnover at a competitive rate.

Timing

It is definitely worth booking your auditor/independent examiner in good time, because, with many organisations having their year end in March, they are a tiny bit rushed off their feet from April to July! It is also worth arranging the date for your AGM at a reasonable time after the year end. Indeed I would recommend consulting with your auditor/independent examiner about your AGM date, before you set it, to make sure it is realistic from their point of view. Remember that the accounts have to be approved at a Trustees meeting before they can be signed off by the Independent Examiner, so you need to allow time for that as well (see flow chart on page 7 for the process).

Further Resources

Independent Examination of Charity Accounts free from the Charity Commission (Tel 01823 345427)

Accounting And Reporting by Charities – Statement of Recommended Practice free from the Charity Commission (Tel 01823 345427)

Accounts and Accounting Reference Dates free from Companies House (Tel 0870 3333636)

A Practical Guide to Financial Management £14.95 from Directory of Social Change (Tel 020 7209 5151)



For further information please contact:

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Flowchart showing Audit/ Independent examination process

**Appointment of Auditor/Examiner
agreed at AGM**



**Organisation contacts auditor/examiner to book a date (do not fix
your AGM date until you have agreed a date with auditor /examiner)**



Engagement letter for signing (and document checklist)
sent out by Auditor/examiner. Organisation signs and returns it



Books and documents passed to auditor /examiner at agreed date



Accounts prepared and examined/audited (someone at the organisation
needs to be available to answer queries over this period)



Accounts are sent out for approval and signing at
a management committee meeting



Accounts are returned to auditor /examiner for
them to sign their report



Accounts are returned to the organisation by the accountant sometimes with a management letter
(with recommendations) to the organisation