

Chapter 11

Independent examination

11.1 Introduction

The flowchart in Chapter 1, paragraph 1.2 sets out the thresholds for the independent examination or audit of PCC annual financial statements.

All PCCs below the audit threshold may choose to have their financial statements independently examined rather than audited. A major donor or grant maker may require the financial statements to be audited even though an independent examination might otherwise have been chosen. An audit is a more onerous form of scrutiny and must be carried out by a registered auditor but an auditor can be asked to act as an examiner. PCCs that can choose independent examination, rather than an audit, are encouraged to do so.

11.2 What does the PCC have to do?

A suitable examiner has to be appointed by the Annual Parochial Church Meeting (APCM). The PCC will have to consider carefully the suitability of a prospective independent examiner in good time in order to guide the meeting in its appointment.

11.3 Can an examiner be paid?

The PCC is entitled to pay a reasonable fee to an independent examiner for their services. If the services of a competent examiner cannot be obtained on a voluntary basis, the PCC should be prepared to pay a modest fee, which is a proper charge on its funds. The PCC should not be pressured into appointing an examiner acting in a voluntary capacity just because they will do the work free of charge. The PCC must be satisfied that the examiner has the requisite ability and experience.

11.4 Who can be an independent examiner?

An independent examiner is described in Section 145 of the Charities Act 2011 as

“an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the financial statements”

The term “independent examiner” does not exclude an accountant or, indeed, a registered auditor, but recognises that the scrutiny is less onerous than an audit.

In respect of PCCs with gross income over £250,000, the independent examiner must have a “recognized” qualification as per Charities Act 2011. Should however the PCCs gross assets in the balance sheet exceed £3.26m an audit is required.

11.5 What does ‘independent’ mean?

For an examiner to be independent that individual must have no connection with the PCC which might appear to be prejudicial to an impartial examination of the financial statements.

The following persons will be considered to have a connection with the PCC that makes it inappropriate for them to be an examiner:

- (a) a member of the PCC or any of its sub-committees (this exclusion is included in the Church Representation Rules);
- (b) an employee of the PCC, or a person receiving benefit or support from PCC funds by way of a gift (other than a fee received as an examiner);
- (c) a child, parent, grandchild, grandparent, brother or sister, spouse, civil partner, business partner or employee of any person who falls within sub-paragraph (a) or (b) above.

An independent examiner can, however, be a member of the Church with their name on the electoral roll.

11.6 What sort of people can be appointed?

The Church Accounting Regulations require an external scrutiny of the financial statements for all PCCs, even though the Charities Act does not require external scrutiny where gross income is up to and including £25,000.

For PCCs with gross income that does not exceed £250,000 for the year, and with financial statements prepared on the receipts and payments basis, an appropriate independent examiner would be someone familiar with business and financial matters. For all accruals accounts the examiner also needs to be familiar with Charity accounting and regulation but they need not be a relevant formal qualification.

PCCs with gross income between £250,000 and £1m for the year and with a balance sheet value of gross assets not exceeding £3.26 million, must appoint an appropriately qualified accountant or examiner (see CC32 on the Charity Commission website: www.charitycommission.gov.uk) to carry out the independent examination.

PCCs with gross income in excess of £1m for the year, or where gross income is greater than £250,000 for the year and the balance sheet value of gross assets is in excess of £3.26 million, must have an audit by a registered auditor.

Where group accounts, consolidating the accounts of the PCC and its subsidiaries, have to be prepared, the examiner must also have the requisite knowledge of the statutory group accounting requirements.

11.7 How should an examiner's requisite ability be checked?

Whether an examiner has the requisite ability will depend very much on the size and complexity of the PCC's financial statements as well as on the examiner's individual experience.

- The duty to seek evidence of the ability of a prospective independent examiner rests with the PCC. If the prospective independent examiner is not known to the members of the PCC, the PCC should consider asking to see a CV, taking independent references and possibly forming a small group to interview candidates.
- Difficulties can arise where the examiner has been recommended by an individual member of the PCC, who has then made the only contact with them. There have been cases where it was found that the examiner never existed!

11.8 What is appropriate 'practical experience'?

The PCC should satisfy itself that a prospective examiner has practical experience of preparing or reviewing and evaluating the financial statements of comparable organisations as well as experience of charity regulation and can readily understand the PCC's financial statements and interpretation of matters of "material significance to the

regulator”.

11.9 How does the PCC know what it has to provide to the examiner?

The treasurer should discuss fully with the prospective examiner the work of the PCC and its expectations. Help will be found in the CC32 directions and guidance notes on the duties of an examiner. In some dioceses guidance and advice may be available, or treasurers in neighbouring parishes or deanery finance officers may be in a position to assist. The examiner’s duties must be followed to ensure that the requirements of the Church Accounting Regulations 2006 are met. The Charity Commission guidance on independent examination is in the following publications:

Independent Examination of Charity Accounts: Trustees’ Guide (CC31)

Independent Examination of Charity Accounts: Examiners’ Guide (CC32).

11.10 What happens when the PCC and the APCM appoint an examiner?

Particularly for larger PCCs, it is recommended that, in order to reduce the chance of any misunderstanding, the independent examiner should write to the PCC detailing its accounting responsibilities and the examiner’s statutory responsibilities. The content of the letter should be agreed with the PCC and a sample letter is shown below. The same distinction of responsibilities will normally be required by a professional examiner or auditor to be included in the annual report and accounts.

Some examiners of PCCs will probably document the agreed terms of engagement in this way, but the matters set out here should be discussed and agreed with all independent examiners prior to the examination.

The examiner must be given sufficient time in which to complete the examination.

The PCC will need to approve a motion for the appointment of the independent examination at the APCM. A suitable form of words is:

The PCC has elected to subject the financial statements to independent examination and, therefore, having made appropriate enquiries, propose [insert the name of the examiner] as independent examiner until the next APCM.

Example: This following example which PCCs may wish to use but please be aware that the terms of engagement may vary from time to time according to changes in regulatory requirements and/ obligations of independent examiners.

[Note: The phrases in square brackets should be omitted when the examination is of accounts on the receipts and payments basis.]

The Secretary of the Parochial Church Council
St Ledger's Church

Dear members of the PCC,

Engagement as independent examiner

The purpose of this letter is to set out in confirmation of our recent discussions the basis on which I am prepared to act as independent examiner to prepare a report in respect of the PCC's financial statements for the year ended 31 December 2016, and for future years until further notice, in accordance with section 145 of the Charities Act 2011 ('the Act') and the Church Accounting Regulations 2006 ('the Regulations').

Responsibilities of members of the PCC

As members of the PCC, you are responsible for maintaining proper accounting records and for preparing accounts which [give a true and fair view and] have been prepared in accordance with the Regulations.

You are also responsible for determining whether, in respect of the year (and the preceding two years), the PCC meets the conditions for exemption from an audit of the accounts set out in section 144(1) of the Act and the Regulations, and for providing me with information and explanations required for my examination.

Responsibilities of the independent examiner

I shall plan my work on the basis that an independent examiner's report on the accounts is required for the year, unless you inform me in writing to the contrary. As an independent examiner I have a statutory duty to state in my report whether any matter has come to my attention in connection with the examination which gives me reasonable cause to believe that in any material respect:

- a) accounting records have not been properly kept in accordance with section 130 of the Act; or
- b) the accounts do not accord with the accounting records or do not comply with the Regulations [other than in respect of the requirement for a true and fair view].

I also have a statutory duty to disclose in my report [inconsistencies between the accounts and the annual report and] matters coming to my attention in connection with the examination to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Should my work lead me to conclude that the PCC is not entitled to exemption from an audit of the accounts or should I be unable to reach a conclusion on this matter, then I will not issue any report and will notify you in writing of the reasons. In these circumstances, if appropriate, I will discuss with you the need to appoint an auditor.

Scope of the independent examiner's work

My work will be carried out in accordance with general directions setting out the duties of an independent examiner issued by the Charity Commission and as contained in the Church guidance.

My work as independent examiner will be a less onerous form of scrutiny than an audit of the accounts in accordance with Auditing Standards. My examination will include a review of the accounting records kept by the PCC and a comparison of the accounts presented with those records. It will also include a review of the accounts and consideration of any unusual items or disclosures identified. In such cases where I identify an unusual item, I will seek explanations from the PCC, and may carry out verification and vouching procedures where I require further clarification. [Similarly I will make assessments of the estimates and judgements made by you in your preparation of the accounts where they are material to the accounts.]

My work cannot be relied on to identify the occasional omission or insignificant error, nor to disclose breaches of trust or statute, neglect or fraud which may have taken place and which it is the responsibility of the PCC to guard against. However, I would be obliged to report direct to regulators any matters of material significance coming to light in the course of my work.

Should I become aware, for any reason, that the accounts may be misleading and we cannot agree appropriate amendments, and I then conclude that the matter cannot be adequately dealt with in my report, I will not issue any report and will withdraw from the engagement, and will notify you in writing of the reasons.

As part of my normal procedures, I may request you to provide written confirmation of any information or explanations given by you orally during the course of my work.

Fees

I am prepared to waive my fee for this examination.

Confirmation

Once it has been agreed, this letter will remain effective until it is replaced or until I cease to hold the position of independent examiner. I shall be grateful if you will kindly confirm your agreement to the terms of this letter by arranging for the signature, and return, of the attached copy, or let me know if the terms of this letter are not in accordance with your understanding of my terms of appointment.

Yours faithfully

11.11 The Charity Commission's statutory Directions

The Charity Commission's Directions provide the procedural basis or framework to define how the reporting duties of the examiner must be met. The Directions are made by the Charity Commission under powers given in the Charities Act 2011 and set out the areas of work that must be covered in any examination.

The Charity Commission is aware that volunteer examiners, who are not charging a fee, are giving their time freely for the benefit of the charity sector. In the event of a concern arising about the adequacy of an independent examination carried out by a volunteer, the Commission will take into account the nature of the voluntary role and be proportionate in their approach when considering any failure in the examination process, provided the examiner has acted reasonably and honestly and the PCC has acted with due care.

Where the examiner is charging a fee or receiving payment it is expected that the services provided will be to a professional standard.

In all cases the examiner:

- must demonstrate appropriate technical knowledge, including familiarity with the Statement of Recommended Practice for Charities (the SORP) and Charity Commission regulatory policy and practice;
- must carry out their work fully in accordance with the Charity Commission's Directions; and
- must be competent by virtue of their ability and experience, to fulfil their statutory duty to report matters of material significance to the Charity Commission.

The actual Directions are contained in the Charity Commission's publication (CC32).

11.12 Audit/Independent examination comparison

Procedure	Audit	Independent examination
Opinion required as to whether financial statements show a true and fair view	Yes	No
Level of assurance given	High, positive	Moderate, negative
Check accounting records to establish entitlement to independent examination instead of audit	n/a	Yes
Obtain understanding of the PCC's organisation, accounting system, activities and nature of its assets, liabilities, incoming resources and application of resources in order to plan appropriate procedures	Yes	Yes
Record the procedures carried out and document matters that are important to support conclusions reached or statements provided in the report	Yes	Yes
Consideration of accounting records (i.e. that they are in accordance with section 130 of the Charities Act 2011)	Yes	Yes
Analytical review	Yes	Yes
Substantive testing, e.g. vouching source documents, physical inspection of fixed assets, obtaining bank confirmation of balances, inspection of investment certificates etc	Yes	No – unless the analytical review shows unusual items for which the PCC cannot give satisfactory explanations
Review financial statements for conformity with applicable rules on form and content	Yes	Yes
Considering conformity with the current charities SORP and the PCC's financial viability. Consider any significant estimate or judgement made in preparing the financial statements.	Yes	Yes (with the exception of true and fair view).
Post balance sheet events	Obtain sufficient appropriate evidence	Enquiry of the PCC (accruals-based accounts)
Identify and report on any major inconsistencies between any financial references in the annual report and financial statements	Yes	Yes
Obtain all information and explanations needed to carry out the scrutiny – report any failure to the PCC and other bodies (as appropriate)	Yes	Yes