Small Charity Reporting

Bulletin 2017 / 1

What is in this Bulletin?

There are three key changes of relevance to auditors, independent examiners and preparers of charity accounts dealt with in this Bulletin:

(a) Changes to the directions and report of independent examiners following the implementation of revised CC 32;
(b) Guidance on drafting audit reports for periods commencing on or after 16 June 2016 following the implementation of revised ISA 700;
(c) Changes in the requirement for reporting matters of material significance by auditors and independent examiners.

In addition, we look at the latest guidance for trustees on corporate governance and consider the implications of FRED 68 on the accounts of trading subsidiaries which gift aid profits to charities.

Changes to the directions and reports of independent examiners

Overview

An updated CC 32, Independent examination of charity accounts: directions and guidance for independent examiners has been issued. This updated guidance, which applies in England and Wales only, includes revisions in the Directions, and the guidance on applying those directions, and therefore, the work which needs to be carried out. There are also three new directions, as follows:

(a) New direction 2 – "Check for any conflict of interest that prevents the examiner from carrying out their independent examination";

(b) New 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". Note that this was changed from the proposal in the consultation draft under which the onus was on the examiner to identify conflicts of interest.

(c) New direction 9 – "The examiner must check whether the trustees have considered the financial circumstances of the charity as 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 guidance supporting the regulations has also been amended, and more of the guidance is mandatory, since it is prefaced by the word “must”. “Must means that 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 is good practice which the Charity Commission expects the independent examiner to follow when carrying out their examination, whereas “recommended” or “may” is used where the Commission believes that the independent examiner may find helpful when carrying out their examination.

In addition to changes in the Directions there are minor changes in eligibility to carry out an independent examination where income if greater than £250,000.

It is now possible for an independent examination to be carried out on consolidated accounts, although there is no requirement to prepare such accounts.

Finally, there is a revised format for the independent examiner’s report required by Direction 13. Appendix 4 to CC 32 gives 12 examples. Appendix 1 to this bulletin gives the example for a limited company charity.

Effective date

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 are mandatory is 1 December 2017.

Examiners are 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.

CC32 includes a checklist which includes the following guidance The checklist is included as Appendix 3.

Revised ISAs and Ethical Standards

Introduction

FRC has issued updated Ethical Standards and ISAs applicable for periods commencing on or after 17 June 2016. These were primarily driven by the revised Audit Directive and Regulation,

It is generally accepted that there should be little change in the work done under ISAs except for public interest entities. Charities are not included within the definition of public interest entities.

There may be some additional requirements for large international groups because of changes in ISA 600. There are unlikely to be many charities affected by these changes.

The key emphasis in the revised Ethical Standards is whether transactions, conditions or events would give rise to a perceived threat to integrity or objectivity in the mind of an informed third party.

The big changes relate to audit reports, as when ISAS were initially introduced in the UK, APB issued a UK and Ireland based reporting standard ISA 700, and not the IAASB version. FRC have now adopted the IAASB version with some UK pluses.

ISA (UK) 700 (Revised June 2016)

Introduction

A new audit report will be required to comply with ISA 700 as FRC have adopted the International version. Unfortunately, the bulletin of reports does not include example reports for charities (the old Bulletin included the following examples:

(a) Charitable company in England and Wales;
  (i) Example 29 – Audit under Charities Act 2011;

   (ii) Example 30 – Audit under Companies Act 2006;
   (iii) Example 31 – Charitable group audited under Charities Act 2011 and Companies Act 2006;
   (iv) Example 34 – Large charitable group whose consolidated accounts require audit under Companies Act 2006.
(b) Charitable company in Scotland or in Scotland and England and Wales;
   (i) Example 32 – Charity where election has been made for audit exemption under CA 20006
   (ii) Example 33 – Audit under the Charities and Trustee Investment (Scotland) Act 2005 and the Companies Act 2006
(c) Unincorporated charity
   (i) Example 35 – Unincorporated charity registered in England and Wales;
   (ii) Example 36 – Unincorporated charity registered in Scotland.

Additionally, it appears that revised Practice Note 11 will not include specimen reports.

ICAEW has issued guidance on drafting audit reports for a charity, but not a full version. Our version of the reports for a UK limited company

ISA 701 Communicating key audit matters in the independent audit report

Introduction

Having already implemented extended auditor reporting requirements, the FRC has adopted the IAASB version of ISA 701 "Communicating key audit matters in the independent audit report" whilst retaining some specific FRC requirements as UK pluses:

(a) The auditor's report should "describe those assessed risks of material misstatement that were identified by the auditor and which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team;" and
(b) The requirement in the Regulation for auditors of PIEs to include in support of the audit opinion "a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud".

Application

In addition to listed entities the following are required to apply ISA 701:

(a) Entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code; and
(b) Other public interest entities; and
(c) Entities where the auditor otherwise chooses to communicate key audit matters in the auditor's report.

It is conceivable that a large charity might choose to adopt the UK Corporate Governance Code, and this may bring additional reporting issues for the auditor. Where a charity chooses to adopt the Charity Governance Code, this does, not of itself, trigger compliance with ISA 701. However, the auditor is free to choose to communicate such matters in the audit report in which case ISA 701 does apply.

Reporting matters of material significance to the Charity Commission

Introduction

The Charity Commission has recently updated and clarified the reporting of matters of material significance to the charity regulators. This guidance applies to the Charity Commission in England and Wales, OSCR and the newly created charity regulator in Northern Ireland.

Statutory background

Duty to blow the whistle

The duty to report arises where the auditor or independent examiner, in the course of their work, identifies a matter, which relates to the activities or affairs of the charity or of any connected institution or body, and which they have reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the regulator of its functions.

Auditors and independent examiners are only required to communicate matters described as being of material significance in the context of the regulator's functions.

Determining whether a matter is reportable involves consideration both of whether the auditor has a 'reasonable cause to believe' and that the matter in question 'is, or is likely to be of material significance' to the regulator. The regulations do not require auditors or independent examiners to perform any additional audit work as a result of the statutory duty nor are they required specifically to seek out breaches of the requirements applicable to a particular charity. However, in circumstances where they identify that a reportable matter may exist, they carry out such extra work, as considered necessary, to determine whether the facts and circumstances give them 'reasonable cause to believe' that the matter does in fact exist. It should be noted that the work done does not need to prove that the reportable matter exists.

Material significance

There is no change in the definition of 'Material significance' which is defined as follows:

"The term **material significance** requires interpretation in the context of the specific legislation applicable to the regulated entity. A matter or group of matters is normally of material significance to a regulator's function when, due either to its nature or its potential financial impact, it is likely of itself to require investigation by the regulator."

The determination of whether a matter is, or is likely to be, of material significance to the regulator inevitably requires auditors to exercise their judgement. In forming such judgements, they need to consider not simply the facts of the matter but also their implications. In addition, it is possible that a matter, which is not materially significant in isolation, may become so when other possible breaches are considered.

Matters at a glance

The table below shows the old wording and the revised wording.

	Title	**Previous wording**	**Revised wording**
1.	Dishonesty & Fraud	Matters suggesting dishonesty or fraud involving a **significant** loss of, or a **major** risk to, charitable funds or assets	Matters suggesting dishonesty or fraud involving a **significant** loss of, or a **material** risk to, charitable funds or assets
2.	Internal controls & Governance	Failure(s) of internal controls, including failure(s) in charity governance, that resulted in a **significant** loss or misappropriation of charitable funds, or which leads to **significant** charitable funds being put at major risk	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 **material** charitable funds being put at major risk
3.	Money Laundering & Criminal Activity	Matters leading to the knowledge or suspicion that the charity or charitable funds 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	Knowledge or suspicion that the charity or charitable funds **including the charity's bank accounts** 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
4.	Support of Terrorism	Matters leading to the **belief** or suspicion that the charity, its	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 the UK;	trustees, employees or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside 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**
5.	Risk to charity's beneficiaries	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	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
6.	Breaches of law or the charity's trusts	**Significant** or recurring breach(es) of either a legislative requirement or of the charity's trusts	**Single** or recurring breach(es) of either a legislative requirement or of the charity's trusts **leading to material charitable funds being misapplied**
7.	Breach of an order or direction made by a charity regulator	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	**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
8.	Modified audit opinion or qualified independent examiner's report		**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 the audit opinion, emphasis of matter or material uncertainty identified / examiner's report.**
9.	Conflicts of interest and related party transactions		**Evidence that conflicts of interest have not been managed 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 right to report

A separate statutory right (as opposed to a duty) to report to the appropriate regulator also exists and may be used by auditors / examiners. Auditors / examiners become aware of circumstances which in their opinion does not give rise to a duty to report to the regulator, but which should nonetheless be brought to their attention. Such matters should be considered in conjunction with ISA 250 'Consideration of law and regulations', and where any report is made auditors / examiners rely on the protection afforded by general law.

FRED 68: Payments by subsidiaries to their charitable parent that qualify for gift aid

There has been considerable inconsistency in the way that payments from subsidiary undertakings to parent charities have been accounted for in the light of the fact that, from an accounting point of view, they are treated as distributions (per ICAEW Technical Release 16/14BL), albeit from a tax point of view they are treated as donations.

This inconsistency has been dealt with by the FRC in FRED 68 (Draft amendments to FRS 102 – Payments by subsidiaries to their charitable parents that qualify for gift aid), which was published in September 2017

The FRC intends to finalise the proposals in the FRED together with those in FRED 67, such that they become applicable for accounting periods beginning on or after 1 January 2019, with early adoption allowed once the FRED has been approved.

FRED 68 states that:

(a) The tax effects of a gift aid payment that it is probable will be made in the nine months following the reporting date should be taken into account at the reporting date;
(b) The tax effects of the gift aid payment should be recognised in profit or loss; and
(c) The gift aid payment, as a distribution to owners, should not be accrued at the reporting date (unless a deed of covenant is in place) and should be recognised in equity.

<u>Illustration</u>

A charity's subsidiary's profit and loss account revealed pre-tax profits of £250K for the 31 March 2016 year-end and £300K for the year ended 31 March 2017. All 2016 profits were remitted to the parent charity in June 2016 and all 2017 profits were remitted to the parent in charity in June 2017 such that no tax liability arose. No deed of covenant was in place.

<u>Comments on illustration</u>

It is important to note that the gift aid payment is not treated as an expense of the company. The treatment follows that of dividends, which are not recognised in profit and loss account in arriving at the profit for the year. As with a dividend, the gift aid is recognised as a distribution, i.e. the payment to its parent of an amount due by virtue of its parent / subsidiary relation, by a movement in equity.

As with the recognition of a dividend, the question is when the obligation to pay the amount determines when the transfer from equity is recognised. If a deed of covenant is in place, the amount payable is recognised as a liability at the year end. If no deed of covenant is in place, it is not recognised until the amount that is payable has been agreed by the directors. This may be on payment.

<u>Tax charge for the year</u>

Assuming that the subsidiary pays the whole of its taxable profit within nine months after the end of the year, there will be no tax liability. Because FRED 68 requires the tax effects to be taken into account at the reporting date this means that there is no tax charge in the profit and loss account for the year, and the whole of the profit before tax is transferred to equity.

If the company includes a tax reconciliation, as required by FRS 102 for medium and large entities, it will show tax at the standard rate for 2017 at £60,000 (assuming a tax rate of 20%) less tax effects of gift aid £60,000, giving a net £Nil.

<u>Recognition of gift aid payment – no deed of covenant.</u>

The transfer of £250,000 from equity is not recorded at 31 March 2017, as there is no obligation to pay that amount over. It is therefore included in retained earnings at that date. It is then recorded as a transfer in 2018. The following illustrates the movements in 2016 and 2017.

Profit and loss accounts

	2017 £000	2016 (as restated) £000
Turnover	*XXX*	*XXX*
Profit before taxation	*300*	*250*
Taxation	*-*	*-*
Profit for the financial year	*300*	*250*

Statements of changes in equity

	2017 £000	2016 (as restated) £000
Brought forward	*250*	*-*
Profit	*300*	*250*
Distribution	*(250)*	*-*
Carried forward	*300*	*250*

The notes to the accounts will be interesting because the tax reconciliation will show tax at the standard rate of (say) £60,000 and effects of gift aid -£60,000 giving a tax charge of Nil. A small company is not required to include such a note, but one could argue that it is necessary to include that note to give a true and fair view. Or does disclosure in the accounting policies note suffice?

<u>*Presentation if there is a deed of covenant.*</u>

There is no difference in the profit and loss account.

Statements of changes in equity

	2017 £000	2016 (as restated) £000
Brought forward	*-*	*-*
Profit	*300*	*250*
Distribution	*(300)*	*(250)*
Carried forward	*-*	*-*

Appendix 1 – Example independent examiner reports

Report signed and dated before 1 December 2017

The example reports in this bulletin are for a company charity. More examples are available in CC32 and will be available in the updated Small Charity Reporting Manual.

Independent Examiner's Report to the Trustees of XYZ Charity Ltd
I report on the accounts of the company for the year ended (date) which are set out on pages … to …

Respective responsibilities of trustees and examiner
The trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the accounts. The trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed. [The charity's gross income exceeded £250,000 and I am qualified to undertake the examination by being a qualified member of (named body).]

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, it is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- state whether particular matters have come to my attention.

Basis of independent examiner's report
My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a "true and fair view" and the report is limited to those matters set out in the statement below.

Independent examiner's statement
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:
   - to keep accounting records in accordance with section 386 of the Companies Act 2006; and
   - to prepare accounts which accord with the accounting records, comply with the accounting requirements of section 396 of the Companies Act 2006 and with the methods and principles of the Statement of Recommended Practice: Accounting and Reporting by Charities

   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.

Name
Relevant professional qualification or body
Address
Date

Independent examiner's report signed and dated on or after 1 December 2017 (or earlier, if revised Directions applied in full

Independent examiner's report to the trustees of XYZ 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 the Trust'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

[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 name of applicable listed body}, which is one of the listed bodies.]

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 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 concerning 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 preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and 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 or membership of professional bodies (if any):

Address:

Date

Appendix 2 - Independent examiner's checklist

1. Direction 1: Check whether the charity is eligible to have an independent examination	
1.1. Checked the charity audit threshold applying to the accounts to be reviewed	
1.2. Checked an audit is not required for any other reason	
1.3. Confirmed the charity is eligible for independent examination	
1.4. Confirmed the amount of the charity's income to figure shown the accounts (including any branches) and confirmed that income and assets are below the audit threshold or, if applicable, obtained a copy of the letter from the Commission approving an audit dispensation	
1.5. If the charity has one or more subsidiaries confirmed that group accounts are not required by law	
1.6. If a charitable company checked that the audit exemption statement has been made	
1.7. If applicable, rechecked the threshold calculation during the examination	
1.8. If the charity's income is more than £250,000 confirmed that the examiner is a member of one of the listed bodies	
1.9. If applicable, informed the trustees that the charity is not eligible for an independent examination	
1.10. If receipts and payments accounts have been prepared, checked that the charity's gross income is less than £250,000 and that it is not a company	
1.11. If receipts and payments accounts have been prepared, check that there is no requirement to prepare accruals accounts in the charity's governing document or for any other reason	
1.12. If applicable, informed the trustees that the charity is not eligible to prepare receipts and payments accounts	
2. Direction 2: Check for any conflict of interest that prevents the examiner from carrying out their independent examination	
2.1. Confirmed that there are no close personal relationships with the trustees that compromise independence	
2.2. Confirmed as having no the day to day involvement in the administration of the charity	
2.3. If providing other services to the charity, then confirmed that all the criteria in Direction 2 necessary for independence are met	
2.4. Identified that there are no circumstances in the examiner's judgment that would reasonably lead to the perception that the examiner is not independent	
2.5. Considered whether sufficiently skilled to carry out the examination and, where required, confirmed membership of a listed body	
2.6. If applicable, informed the trustees that you are not eligible to carry out the independent examination	
3. Direction 3: Record your independent examination	
3.1. File of working papers prepared to document the work undertaken (see the Direction for guidance on key working papers)	
3.2. Evidence of appointment on file	
3.3. If issued, letter of engagement signed by the trustees on file	
3.4. Documentation of steps required by Direction 1 are all done	
3.5. Documentation that steps required by Direction 2 are all done	
3.6. Analytical review documented	
3.7. Areas of concern identified and noted whether these were resolved or if unresolved and significant have included them in the examiner's report	

3.8. Verification and vouching procedures undertaken, and any checks made are on file	
3.9. Copy of approved accounts on file	
3.10. Copy of trustees' annual report on file	
3.11. Copies of information relied upon as part of the examination are on file	
3.12. If applicable, copies of written assurances given	
3.13. Recorded the conclusions drawn as an outcome of the independent examination that support the examiner's report are on file	
3.14. Recorded any matters of material significance about which a report must be made direct to the Commission	
3.15. Recorded whether to exercise discretion and report on relevant matters direct to the Commission	
4. Direction 4: Plan your independent examination	
4.1. Obtained an understanding of the charity's constitution, objectives, organisational structure, the funds managed, its activities and accounting records and systems	
4.2. Planned specific examination procedures appropriate to the circumstances of the charity	
4.3. Reviewed whether any areas for improvement were advised to the trustees in the previous year's independent examiner's report (or audit report and management letter) and looked to see if any action taken	
4.4. Considered the financial risks identified and, where accruals accounts prepared, considered whether the trustees have evidence that shows that the charity is a going concern	
4.5. Noted any implications for the examiner's report and for separate reporting to the Commission	
5. Direction 5: Check that accounting records are kept to the required standard	
5.1. Checked that accounting records have been kept are complete and considered if they have been kept to the required standard	
5.2. Asked the trustees about how they ensure the accounting records are complete	
5.3. If corrections made or records created during the examination, the trustee approval for these has been sought and obtained	
5.4. Asked the trustees if they carried out a review of the charity's internal financial controls in the year reported	
5.5. Noted any implications for the examiner's report and for separate reporting to the Commission	
6. Direction 6: Check that the accounts are consistent with the accounting records	
6.1. Compared the accounts with the underlying accounting records	
6.2. Checked some entries from the listing of transactions of income and expenditure to vouchers such as invoices, bank statements, and receipts.	
6.3. If applicable, confirmed that the trustees have taken the necessary steps to ensure that restricted or endowed funds are correctly reported in the accounts	
6.4. If additional checks were necessary, the evidence was found that showed the accounting record was complete, voucher present, and both supported the entry in the accounts	
7. 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	
7.1. Checked that the disclosures required by the SORP have been made and are complete	

7.2. Considered whether there are any implications for the examiner’s report and reporting to the Commission	
7.3. If receipts and payments accounts prepared and a related party transaction note was provided, then checked the note for any implications for the examiner’s report	
8. 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	
8.1. Checked with the trustees that the separate funds of the charity have been correctly accounted for and reported correctly in the accounts	
8.2. Checked the reasonableness of any significant estimates or judgments that have been made in preparing the accounts	
8.3. Where accruals accounts are prepared, checked that the accounting policies adopted are consistent with the SORP and are appropriate to the activities of the charity	
8.4. Where accruals accounts are prepared, checked that the accounts were prepared on a going concern basis	
8.5. Noted any implications for the examiner’s report and for separate reporting to the Commission	
9. 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	
9.1. Asked the trustees whether they expect the charity to be able to settle outstanding invoices, bills and commitments as and when they fall due	
9.2. Asked the trustees about the reserves policy and the adequacy of the level of reserves held	
9.3. Where accruals accounts are prepared, checked that the trustees’ have made an assessment of going concern and that their assessment is reasonable given the information available	
9.4. Where accruals accounts are prepared, checked that the SORP’s disclosures about going concern have been made	
9.5. Noted any implications for the examiner’s report and for separate reporting to the Commission	
10. Direction 10: Check the form and content of the accounts	
10.1. Where receipts and payments accounts have been prepared, checked 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	
10.2. Where accruals accounts are prepared, checked that they comply with the SORP and applicable accounting standard	
10.3. If the charity is a company, checked that the accounts also comply with the applicable company law requirements	
10.4. Noted any implications for the examiner’s report and for separate reporting to the Commission	
11. Direction 11: Identify items from the analytical review of the accounts that need to be followed up for further explanation or evidence	
11.1. Carried out an analytical review	
11.2. Following the analytical review, selected material items in the accounts for further explanation or supporting evidence	

11.3. If the accounts could be materially misstated, additional checks were undertaken and the examiner is satisfied that the item(s) identified were satisfactorily explained and correctly included in the accounts	
11.4. Noted any implications for the examiner's report and for separate reporting to the Commission	
12. Direction 12: Compare the trustees' annual report with the accounts	
12.1. Checked that any figure for reserves quoted in the trustees' annual report is not materially inconsistent with the accounts	
12.2. Compared the trustees' annual report with the accounts for any material inconsistency	
12.3. Noted any implications for the examiner's report and for separate reporting to the Commission	
13. Direction 13: Write and sign the independent examination report	
13.1. Reviewed the conclusions from the independent examination	
13.2. Considered whether the examination has identified a matter of concern that should be reported in the examiner's report	
13.3. Checked that the examiner's report covers all of the matters required	
13.4. If relying on the work of others in undertaking the independent examination, the examiner is fully satisfied with their work and that work has been fully documented	
13.5. Signed and dated the examiner's report	
13.6. Reported matters of material significance direct to the Commission	
13.7. Exercised discretion and reported relevant matters direct to the Commission	

Appendix 3: Example auditor's report for a limited company charity audited under CA 2006 (not Scotland)

This example report needs to be adapted to reflect whether the company qualifies as small and is therefore not required to prepare a strategic report under company law.

Independent Auditor's Report to the Members of XYZ Charity Ltd

Opinion
We have audited the financial statements of XYZ Charity Ltd (the 'charitable company') for the year ended [date] which comprise the statement of financial activities, balance sheet, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at [date], and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The trustees are responsible for the other information. The other information comprises the information included in the trustees' annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the trustees' report (incorporating the [strategic report and the directors' report[1]] [directors' report][2]) for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the [strategic report and the directors' report have][3] [directors' report has][4] been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of our knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the [strategic report and the][4] directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit. [; or
- the trustees were not entitled to [prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption[s] in preparing the directors' report and from the requirement to prepare a strategic report] [5.]

Responsibilities of trustees
As explained more fully in the trustees' responsibilities statement [set out on page …], the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements[6]
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report[7]
This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.]

Signature
[Name] Senior Statutory Auditor
For and on behalf of [Senior Statutory Auditor]
Address
Date

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[1] Non-small company charities
[2] Small company charities
[3] Non-small company charities
[4] Small company charities
[5] Small company charities – suitably adapted for exemptions used
[6] This assumes the auditor will prefer not to include the full responsibilities in the report or a separate statement
[7] Guidance ICAEW suggested including the Bannerman paragraph as used here.