

# Independent examination of charity accounts: examiner's guide

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Guidance on the role and duties of independent examiners in examining the accounts of a charity



## The Charity Commission for Northern Ireland

The Charity Commission for Northern Ireland is the regulator of charities in Northern Ireland, a non-departmental public body sponsored by the Department for Communities.

### Our vision

To deliver in partnership with other key stakeholders in the charitable sector “a dynamic and well governed charities sector in which the public has confidence, underpinned by the Commission’s effective delivery of its regulatory role.”

Further information about our aims and activities is available on our website [www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk)

### Equality

The Charity Commission for Northern Ireland is committed to equality and diversity in all that we do.

### Accessibility

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### Online or in print

If you are viewing this document online, you will be able to navigate your way around by clicking on links either within the contents page or text. We have produced a glossary that provides further information, definitions and descriptions of some key terms. The words in **bold green type** indicate words that are found in the glossary towards the end of this document. If you are reading the document online you can click on the word and it will link you to the definition in the glossary. The words in *pink italics* indicate other guidance or databases, links to these can be found on the **Useful supporting documents** page.

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## Using this guidance

Sections in **green** set out important information that should be read by independent examiners. Sections in **red** (sections 5 and 6) highlight information that contains legal requirements for independent examiners.

### Section 2

- Read section 2 for an 'at a glance' summary to provide the examiner with a general understanding of the requirements for independent examination and the framework within which it takes place.

### Section 3

- Read section 3 for more detail on who can carry out an independent examination, specifically, the skills and experience needed.

### Section 4

- Read section 4 for recommendations on preparing and planning for an independent examination to help make the examination process more efficient and effective.

### Section 5

- Section 5 must be read as it sets out the Commission's Directions to independent examiners and the procedures that must be followed by the examiner.

### Section 6

- Read section 6 for information on the new duty to report matters of material significance to the Commission.

# Section 1: About this guidance

## What does this guidance cover?

This guidance explains the role and duties of independent examiners in examining the accounts of a charity, and identifies which charities can opt for an independent examination instead of an audit. It sets out who may undertake an independent examination, what is involved, the matters which must be included in the independent examiner's report to the charity trustees, and the Charity Commission for Northern Ireland's Directions to independent examiners which must be followed in any examination. The guidance also highlights the separate statutory duty placed on examiners of charities to report matters of material significance to the Commission. It is made up of the following sections:

- [Section 2](#) gives an 'at a glance' summary to provide the examiner with a general understanding of the requirements for independent examination and the framework within which it takes place.
- [Section 3](#) explains in more detail who can carry out an independent examination, specifically, the skills and experience needed.
- [Section 4](#) contains recommendations on preparing and planning for an independent examination to help make the examination process more efficient and effective.
- [Section 5](#) sets out the Commission's Directions to independent examiners and the procedures that must be followed by the examiner. Guidance is provided for each Direction that sets out how the requirements may be met in practice.
- [Section 6](#) highlights the new duty to report matters of material significance to the Commission where these matters relate to the potential use of the Commission's inquiry powers.

Additional information is provided in the appendices including advice for charities also registered with the Office of the Scottish Charity Regulator (OSCR) at [appendix 3](#). A bank of example examiner reports have been provided in a separate document *Guidance for independent examiners – template reports* which is available in the annual reporting section of our website.

## What does this guidance not cover?

You should not rely on this guidance to provide a full description of legal matters affecting a charity and it does not replace advice from a charity's own professional advisers.

## Who does this guidance apply to?

This guidance is for independent examiners of all types of charities that are eligible to opt for independent examination.

The guidance and Directions are applicable to all independent examinations where the examiner's report is issued after 12 August 2016 (the date of publication of the Directions within this guidance). Content requirements for the examiner's report are already set out in [The Charities \(Accounts and Reports\) Regulations \(Northern Ireland\) 2015](#).

Separate guidance is available to **charity trustees** who are responsible for appointing their charity's independent examiner within the *ARR02 Charity reporting and accounting: the essentials* guidance document.

## What are legal requirements and best practice?

In this guidance, where we use the word 'must' we are referring to a specific legal or regulatory requirement. We use the word 'should' for what we regard as best practice, but where there is no specific legal requirement. Charity trustees should follow the good practice guidance unless there is good reason not to do so.

## Charity legislation

References in this document to 'the Charities Act' are to the **Charities Act (Northern Ireland) 2008**.

References in this document to 'the accounting and reporting regulations' are to [The Charities \(Accounts and Reports\) Regulations \(Northern Ireland\) 2015](#).

References in this document to the 'annual return regulations' are to [The Charities \(Annual Return\) Regulations \(Northern Ireland\) 2015](#), prescribed by the Charity Commission for Northern Ireland.

## Technical/key terms used in this guidance

The following are some key terms that it will be useful to understand when reading this guidance. They, and other terms, are listed in a glossary at [appendix 5](#).

**Directions:** These are legal documents issued when the Commission requires people or entities to take a particular action to ensure the proper administration of a charity. A Direction may be issued in relation to a specific charity or for general application. For the purpose of this guidance

the Directions made by the Commission under powers given in section 65 (9) of the Charities Act are for general application and apply to anyone carrying out an independent examination of charity accounts. The Directions published in this guidance set out the areas of work that must be covered in any independent examination, and define how the reporting duties of the examiner must be met.

**Gross income:** The Charities Act defines gross income to mean the gross recorded income from all sources including special trusts.

For accounts prepared on a receipts and payments basis gross income is simply the total receipts recorded in the statement from all sources excluding the receipt of any endowment, loans and proceeds from the sale of investments or fixed assets.

For accruals accounts this is the income from all sources in the accounting period, including the conversion of endowment to income, but excluding: gifts of endowment, net investment gains/(losses), all revaluation gains/(losses) on retained assets not due to impairment, actuarial gains/(losses) and such other gains/ (losses) that are excluded by accounting standards from the calculation of net income.

**Material/materiality:** Materiality relates to an item that, in the judgement of the examiner, if 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**. An accounting policy is sometimes described as material where the effect is material as to how an item or transaction is recognised, measured or disclosed in accounts. Where a policy does not conform with the Charities Statement of Recommended Practice (also known as the Charities **SORP**), the examiner has to consider whether the effect of that policy when applied to transactions or items in the accounts is so material as to affect the presentation or understanding of the accounts. In this guidance materiality is used in connection with Direction 12 (regarding the examiner's report) and accruals accounts Direction 10 (regarding accounting policies, estimates and judgements) and requires the examiner to look at the underlying judgements, accountancy policies, or basis, for amounts that are material in the context of the accounts.

**Material significance:** This is a particular term used in the Charities Act which gives rise to the duty of an independent examiner to report matters to the Commission. Under the Charities Act, independent examiners and auditors **must** report to the Commission any matter they become aware of regarding a charity or any connected organisation, which they believe

is likely to be of 'material significance' to the Commission in carrying out its functions under section 22 or 33 of the Charities Act. The report must be made immediately and in writing. For more information on 'matters of material significance' please see section 6 of this guidance.

**Significant:** This is a term that is used in this guidance in connection with:

- the keeping of accounting records (Direction 5: Check that accounting records are kept and not materially misstated)
- the analytical review carried out by the examiner (Direction 8: Analytical review- identify items to review and follow up for further information) and
- describing the considerations that affect the examiner's report (Direction 12: Write and sign the examiner's report).

With respect to accounting records (Direction 5), significance is used to describe the extent to which the records found are not complete or the extent to which missing information creates doubt about the adequacy of record keeping. Regarding the analytical review (Direction 8), it requires the examiner to think about whether a matter or an amount is significant in terms of its size or importance to require explanation. For the report (Direction 12), it is whether a finding that the examiner has made in their review is significant enough to need inclusion in the examiner's report. Small amounts or minor matters will not be significant but can become significant if their occurrence is frequent or pervasive. Often significance can only be assessed when the examiner has either carried out the analytical review or has finished their work and is reflecting about what has been found and is preparing their report. A matter can be significant even if it's not material in terms of its amount alone.



## Section 2: Independent examination at a glance

To maintain public trust and confidence in the work of charities, it is now a legal requirement that all registered charities in Northern Ireland have an external scrutiny of their accounts. This applies to each financial period beginning on or after 1 January 2016, or their date of registration with the Commission, if later. External scrutiny can take the form of an audit or an independent examination. Provided a charity is not required by law or its **governing document** to have an audit then the trustees may choose a simpler form of external scrutiny called an independent examination.

### 2.1 What is an independent examination?

An independent examination provides an external check on a charity's accounts. It involves a review of the accounting records kept by the charity, a comparison of the accounts presented with those records and the consideration of any unusual items or disclosures identified.

If you are carrying out an independent examination of charity accounts under the new accounting and reporting regulations, you must follow the Commission's Directions when carrying out your review. The Commission's Directions, published in section 5 of this guidance, set out the procedures that must be followed by anyone undertaking an independent examination.

The Directions are made by the Commission under powers given in the Charities Act and define how the reporting duties of the independent examiner must be met.

The examination procedures an independent examiner must follow are set out in the Directions made by the Commission (see section 5). The content requirement of the examiner's report is set out in the 2015 Regulations.

The accounting and reporting regulations and Directions are mandatory and apply to the independent examinations of all registered charities.

In the examiner's report, the examiner is required to provide a statement on specific matters that have come to their attention as a result of the examination procedures specified in the Directions made by the Commission. An independent examiner is required to confirm that no **evidence** has been found that suggests certain things have not been done by the charity. This form of 'negative assurance' is a more limited form of scrutiny than an audit which requires a greater depth of work to be carried out. An auditor is required to build up a body of evidence to support a positive statement of opinion on the accounts. In particular the auditor is required to form an opinion as to whether the accounts show a 'true and fair view'. The examiner is not acting as an auditor and so is not required to plan their work to identify **fraud** or to test the internal financial controls operating in the charity. What the examiner must do is set out in the Directions issued by the Commission and the content requirements of their report are set out in the accounting and reporting regulations.

The examiner's role is an important one. Their report provides assurance about certain specific matters and draws the attention of the reader of the accounts to any matters of concern. The key to a successful independent examination is in the examiner having the relevant skills and experience to undertake a competent examination and in all those involved having an understanding of:

- the responsibilities of the examiner and the trustees in relation to the scrutiny, preparation and filing of accounts
- what an examination involves
- who may undertake an examination.

## 2.2 Which charities can opt for an independent examination?

Section 65 of the Charities Act allows trustees of smaller charities to opt for an independent examination. For financial years beginning on or after 1 January 2016, charities with a gross income of £500,000 or less may choose to have an independent examination. If a charity's gross income exceeds £500,000, they must have a **statutory audit**. Gross income should be calculated in accordance with the Commission's guidance, as set out in [appendix 1](#).

The flow chart at Figure 1 overleaf, sets out the steps for determining whether an individual charity is eligible for independent examination. Where the gross income of the charity exceeds £250,000, and the charity is not subject to statutory audit, the examiner has to be a member of a

body listed in Section 65 of the Charities Act. The relevant bodies are also set out in [section 3](#) of this guidance.

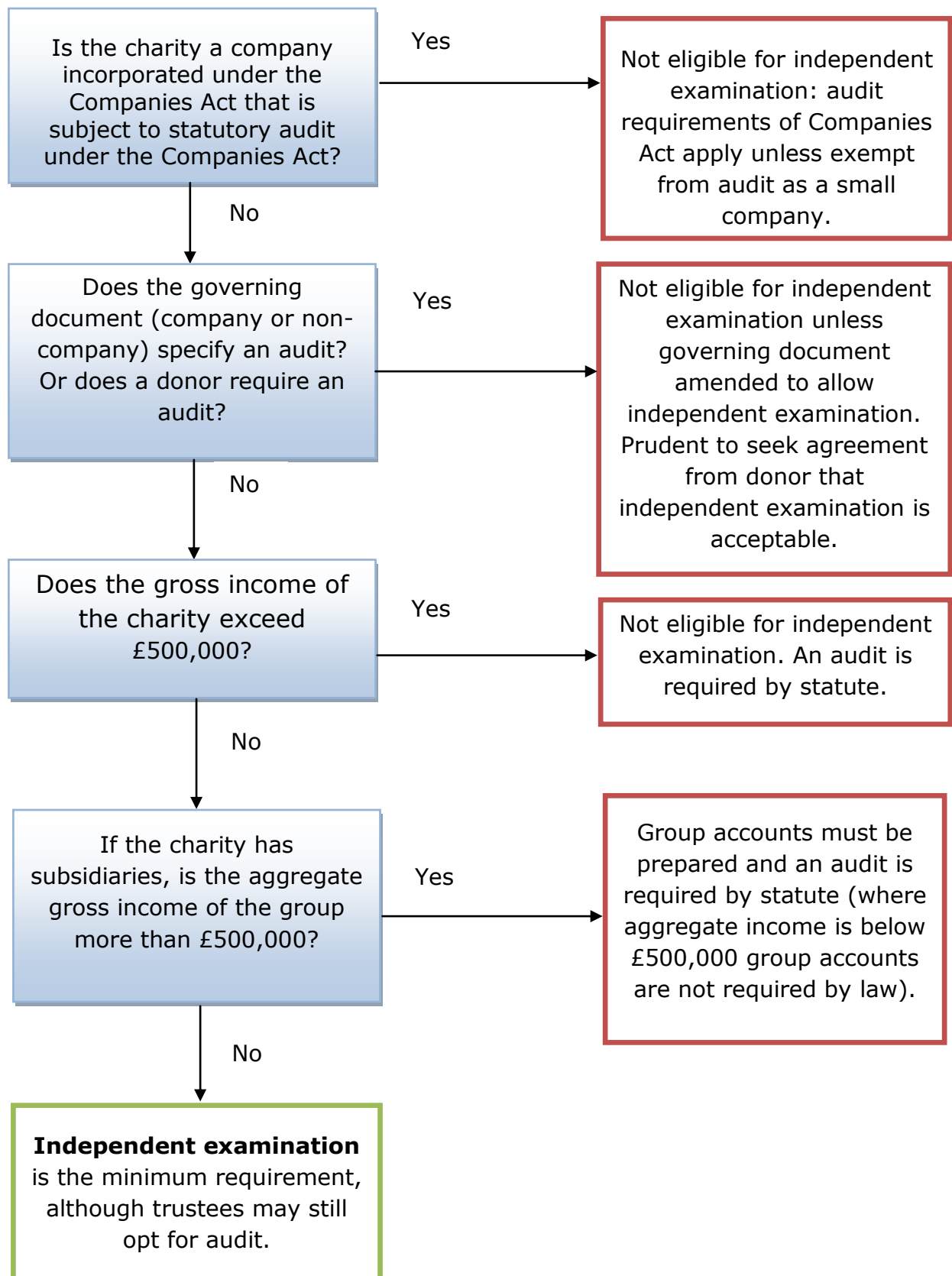
Charities below the threshold for audit may normally opt for an independent examination unless the charity's governing document or other legislation requires an audit.

### **2.3 Can group accounts be independently examined?**

Some charities may have a trading subsidiary which may be registered as a company under company law and carries out commercial trading. The profits of the subsidiary can then be Gift Aided to the charity. Under charity law, where the gross income of the group is less than £500,000 there is no requirement to prepare **group accounts**. The gross income of the group is calculated as the gross income of the charity together with that of any subsidiaries, not including intra group transactions. Where the gross income of the group exceeds £500,000, the group accounts must be prepared and these accounts must be audited.

Where group accounts are prepared voluntarily, the requirements of the Charities Act, the accounting and reporting regulations and the applicable SORP apply. If the parent charity is a company, the group accounts must also comply with company law, particularly if the accounts are to be used for filing purposes at Companies House. Any examination of group accounts requires a high level of accountancy skill including an understanding of accounting standards and consolidation principles.

**Figure 1: Flowchart: eligibility requirements for independent examination**



## Section 3: Who can carry out an independent examination?

This section explains who can undertake an independent examination, the requisite knowledge and experience that is needed, and where a professional membership is required.

### 3.1 Who can carry out an independent examination?

Before accepting an appointment as independent examiner of a charity, the examiner should be satisfied that they have the necessary skills and experience to carry out a competent independent examination and, where required, are a member of a listed professional body. An independent examiner is described in section 65(3)(a) of the Charities Act 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’.**

Consideration of independence is covered in Direction 2: Check for any conflicts of interest that prevents the examiner carrying out his/her independent examination.

For financial years beginning on or after 1 January 2016, once a charity’s gross income **exceeds £250,000**, the examiner must be a member of one of the bodies listed in the Charities Act, and should be allowed by the rules of that body to undertake the role of independent examiner:

- 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
- Full Member of the Association of Charity Independent Examiners
- Institute of Financial Accountants
- The Certified Public Accountants Association.

Members of professional bodies should check if they are required to hold a practising certificate to accept the appointment. This is irrespective of whether they plan to charge a fee or are acting as a volunteer. Professional bodies may differ in their requirements for possession of a practising certificate and professional indemnity insurance.

### 3.2 What skills and experience does the examiner need?

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. Whether receipts and payments accounts or accruals accounts are prepared, the examiner needs some familiarity with certain basic principles including the different types of income funds (unrestricted and restricted) and capital funds (permanent and expendable endowment), the characteristics of a trust, the responsibilities of trustees, and the role of the charity's governing document.

Receipts and payments accounting is straightforward and, for smaller charities, provides a simple alternative to accruals accounts. Knowledge of accounting standards and the SORP is not required to examine receipts and payments accounts. While previous experience will be very helpful, any person with financial awareness and numeracy skills should have the requisite ability to act as an independent examiner for receipts and payments accounts. Examples of people who may be suitable to carry out the independent examination of receipts and payments accounts include, but are not limited to, bank and building society managers, book-keepers or treasurers.

For accruals accounts, it is important that the examiner is a skilled person who has a good understanding of accountancy principles, accounting standards and knowledge of the Charities SORP. Where accounts are prepared on an accruals basis, the Commission recommends to trustees that they should consider selecting a person who is a member of one of the accountancy bodies listed in section 65 of the Charities Act or a similarly skilled person, even when the charity's income does not exceed £250,000.

Prospective examiners need to have experience and knowledge relevant to the charity in question. This should include the examiner having:

- familiarity with certain basic principles including the different types of income funds (**unrestricted** and restricted) and capital funds (permanent and expendable endowment)

- familiarity with the characteristics of a **trust**, the responsibilities of trustees, and the role of the charity's governing document
- relevant accountancy body membership where the charity's income exceeds £250,000
- a good understanding of accountancy principles, accounting standards and knowledge of the **Charities SORP** where they are reviewing **accruals accounts**
- an understanding of **company law** accounting requirements where they are reviewing **charitable company** accounts
- relevant practical experience in accountancy or commerce which might include:
  - involvement in the financial administration of a similar charity
  - having acted successfully as an independent examiner on previous occasions for such charities.
  - a working knowledge of charity accounting.

For more information about charity accounting and reporting, and the duties of trustees, refer to the Commission's guidance available on the website [www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk).

### **3.3 Independent examination – fees**

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 should be aware that they are considered to be providing accountancy services and so must be conversant with and, where required by law, comply with 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.

## Section 4: Preparation and planning - how to prepare for an independent examination

To ensure an efficient and effective examination preparation is necessary. Independent examiners must read the Commission's Directions at [section 5](#) before starting an independent examination and should follow the guidance set out under each Direction if they are to meet the expected standard. The Commission expects all examiners to follow the Directions to the best of their ability and to make their independent examiner's report honestly. The Commission also expects the examiner, when carrying out their work, to be alert to any matters of material significance which they are also under a duty to report (see [section 6](#)).

Preparation and careful planning are key to a successful examination. The independent examiner and trustees of a charity should liaise and plan a timetable for the examination and have a clear understanding of their respective responsibilities in relation to the examination and the preparation and filing of the charity's accounts and reports. Independent examiners are required to:

- read and follow the Directions and related guidance
- liaise with the trustees to ensure the accounting records are up to date and available
- agree a timetable with the trustees for preparing the accounts and trustees' annual report
- agree responsibilities with the trustees, for example, who will prepare the accounts and file them with the Commission
- agree a timetable for the examination with the trustees
- ensure the examination takes place at a time when trustees and key staff are available to answer any questions that may arise.

### 4.1 What accounting records must be available to the examiner?

All charities must keep accounting records and these must be up to date and made available to the independent examiner. These records, such as cash books, invoices, receipts, and Gift Aid records, must be retained for at least six years. Section 388 of the Companies Act 2006 provides that private companies must keep records for **at least three years** and public



companies for **at least six years** from the date on which they are made. Charities must also comply with any other legal requirements that apply to the preparation of their accounts. Where Gift Aid payments are received then records will need to be maintained for six years with details of any substantial donors recorded in accordance with HM Revenue and Customs guidance.

The accounting records must be sufficient to allow accounts to be prepared, identifying transactions including their amount and date, and to identify the amounts and nature of a charity's assets and liabilities.

#### **4.2 What information can the examiner ask for?**

The independent examiner is entitled to ask for any information and explanations from past or present charity trustees, holding/custodian trustees, officers or employees of the charity that they consider necessary for the examination. The examiner has a right of access to any books, documents and other records, however kept, which are related to the charity and considered by the examiner to be necessary to inspect for the purposes of the examination.

#### **4.3 Who is responsible for filing the charity's reports with the Commission?**

The charity 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 ten months of the financial year end. Trustees of charitable companies should note that filing with Companies House is required within nine months of the financial year end and they may find it convenient to file with the Commission at the same time.

The trustees should agree a timescale for completion of the examination with the independent 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. 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.

## Section 5: The Commission's Directions

All independent examiners **must** follow the Commission's Directions when carrying out an independent examination of charity accounts. The Commission's Directions, published in this guidance, set out the areas of work that must be covered in any independent examination of charity accounts. The Directions are made by the Commission under powers given in the Charities Act and define how the reporting duties of the independent examiner must be met.

The Charities Act and accounting and reporting regulations place three specific duties on you as the examiner:

- you must carry out the independent examination in accordance with the Commission's Directions
- you must make your independent examiner's report to the charity's trustees
- you must consider if matters of material significance have come to your attention during the independent examination which give rise to a legal duty to report to the Commission (see section 6).

The Directions apply to all independent examinations carried out on charity accounts, except **Direction 10**, which only applies where accruals accounts are prepared. The table at figure 2 below lists the twelve high-level Directions by topic area and indicates which Direction is relevant depending on the type of accounts that are being prepared. Each Direction has been colour coded for ease of reference. You can click on a direction in the table and this will take you to the relevant part of the guidance.

This section sets out each of the twelve Directions together with guidance on the operational procedures and methods which will help examiners to meet the requirements of each Direction.

The Directions **must** be followed and are reproduced in bold print. The guidance that follows each direction is not mandatory reading but is recommended to help ensure examiners meet the requirements of the Directions. As with any guidance the examples given and procedures suggested cannot meet all circumstances that may arise in the course of examination and judgement will need to be exercised by all examiners in the context of their work.

**Figure 2. Directions for independent examiners**

<b>Directions for independent examiners</b>	<b>Receipts &amp; payments</b>	<b>Accruals accounts</b>
<b>Direction 1: Examination and accounting thresholds – check whether the charity is eligible to have an independent examination</b>	✓	✓
<b>Direction 2: Independence - check for any conflicts of interest that prevent you as the examiner from carrying out your independent examination</b>	✓	✓
<b>Direction 3: Documentation – record your independent examination</b>	✓	✓
<b>Direction 4: Understanding the charity – plan your independent examination</b>	✓	✓
<b>Direction 5: Check that accounting records are kept and not materially misstated</b>	✓	✓
<b>Direction 6: Check that the charity accounts are consistent with the accounting records</b>	✓	✓
<b>Direction 7: Check that any identified conflicts of interest and/or related party transactions were properly authorised and appropriately disclosed</b>	✓	✓
<b>Direction 8: Analytical review – identify items to review and follow up for further information</b>	✓	✓
<b>Direction 9: Check the form and contents of accounts</b>	✓	✓
<b>Direction 10: Check the reasonableness of significant estimates, judgements and accounting policies, used in the preparation of accounts</b>	X	✓
<b>Direction 11: Compare the trustees’ annual report with the accounts for consistency</b>	✓	✓
<b>Direction 12: Write and sign the independent examination report</b>	✓	✓

## Direction 1

### Examination and accounting thresholds – check whether the charity is eligible to have an independent examination

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**The examiner shall carry out such specific procedures as are considered necessary to provide a reasonable basis on which to conclude:**

**(i) that an examination is required under section 65(3) of the Charities Act (Northern Ireland) 2008, and that section 65(1) (audit) of the Charities Act (Northern Ireland) 2008 does not apply to the charity and**

**(ii) where the charity is a small company charity, that it is exempt from audit in accordance with section 477 of the Companies Act 2006 and**

**(iii) where accounts are prepared on a receipts and payments basis under section 64 (3) of the Charities Act (Northern Ireland) 2008 that the charity trustees may properly elect to prepare accounts under this sub-section.**

#### Guidance

1.1 Charity trustees may elect for an independent examination under section 65(3) of the Charities Act and, providing your charity is not a company and the charity is otherwise eligible, charity trustees may also elect to prepare receipts and payments accounts (under section 64(3) of the Charities Act). The examiner should take reasonable steps to confirm:

- The charity's gross income for the financial year does not exceed the threshold for independent examination.
- Where the charity is a parent charity with one or more subsidiaries, for example a trading subsidiary, that the aggregate gross income of the parent charity and its subsidiaries, after consolidation adjustments, does not exceed £500,000. Above this threshold, group accounts must be prepared and these will require an audit.
- Where the charity operates branches and these branches are part of the charity, not separately registered charities, that any income received by the branches has been included in the gross income of the charity.

- If receipts and payments accounts are being prepared, that the charity is not a charitable company and, for financial years beginning on or after 1 January 2016, the gross income is £250,000 or less.

The examiner should also take reasonable steps to confirm:

- Whether the charity's governing document requires any form of **professional audit**.
- Whether any grant condition demands an audit of the accounts.

1.2 Carrying out these procedures at an early stage should prevent the duplication of work should a professional audit be required, which would add to the expense for the charity. Where the charity is not eligible for independent examination the accounts should be referred back to the trustees to appoint an auditor.

1.3 Gross income for threshold purposes should be calculated in accordance with the methods set out in [appendix 1](#). If accounts are prepared on an accruals basis then the level of income should be considered on the accruals basis. Where accounts are prepared on a receipts and payments basis then the level of income should be considered on the basis of money actually received.

1.4 The examiner should consider at an early stage of the examination the level of income disclosed by the accounting records and by the **trial balance**. The examiner needs to remain alert to any additional information which may come to attention during the course of the examination which indicates that an income threshold has been crossed.

1.5 The reasonable steps taken to confirm the income of the charity and the outcome of that research should be documented in accordance with [Direction 3](#).

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

1.7 The thresholds for audit, independent examination and for the preparation of receipts and payments accounts are kept under review. It is therefore recommended that, prior to the independent examination taking place, the current thresholds are confirmed. Details of thresholds can be found in [ARR02 Charity reporting and accounting: the essentials](#).

1.8 The charity trustees of a charitable company electing for an independent examination must also ensure that the audit exemption statement required by section 475 of the Companies Act 2006 is provided.

## Direction 2

### **Independence - check for any conflicts of interest that prevent you as the examiner from carrying out your independent examination**

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**The examiner must not be influenced, or perceived to be influenced, by 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 about his/her 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. 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, or beneficiary of, the charity.

2.2 The examiner must be independent of the charity which they are reviewing. 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.

2.3 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. The examiner may assist in formatting the accounts (see Direction 6 for more information) but such assistance must not extend to creating or maintaining accounting records for the charity. The charity trustees are ultimately responsible for the accounts of the charity and so they must have reviewed and approved the accounts, once compiled, before the examiner starts their examination.

2.4 Whether a connection with the charity affects independence will depend upon the particular circumstances but an individual must not carry out an independent examination were they fall into any of the following categories:

A. any charity trustee and holding/custodian trustee of the charity

B. a person who is a major donor to, or major beneficiary of, the charity

C. any person who is:

1. A child, parent, grandchild, grandparent, brother or sister of any such trustee (A) or major donor/beneficiary (B).

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).

2.5 Where the connection is due to a financial or commercial relationship, for example, an individual or body contracted by the charity to provide it with certain services other than independent examination, the connection is only relevant if it is significant to the charity's operations and/or the individual or body concerned. For example, the person providing an advertising leaflet drop service for a charity shop is probably not connected in a significant way, whereas the landlord of the shop premises probably is. The connection is relevant not only where it concerns an individual relationship, it is also about any organisation or business that you work for. For example, if you work for a small veterinary practice whose main source of income comes from a contractual relationship with an animal welfare charity, it is likely that you will be considered connected in a significant way and not independent.

2.6 Where there is a connection due to a financial or commercial relationship, it may be possible to put arrangements in place within an organisation or firm so that there is sufficient distance between those managing any contractual relationship and the person carrying out the independent examination. These arrangements need to be thought through and planned very carefully and all parties should be satisfied that they address the issue adequately. Particular groups who need to give this aspect of independence special consideration are those who act for the charity as accountants or financial advisors and/or who prepare the charity's formal accounts. Again, there is scope for arrangements to be put in place to safeguard independence, but these must be considered carefully in advance. To protect independence in such a case, the basic underlying principle is that any person involved in keeping the ongoing accounting records for the charity, ie providing bookkeeping services, or



involved in the administration of the charity should not be involved in providing independent examination services to the same charity.

2.8 An examiner who is a member of the charity may act as an examiner, subject to their having the necessary ability, experience and qualification (see section 3) required, they have no conflict of interest which prevents acting as an independent examiner, and have not been involved in the day-to-day decision making or administration of the charity. An example of day to day involvement is serving on a committee or sub-committee convened by the charity.

2.9 Of itself, the right to take part or attend as a member in an annual general meeting (AGM) does not stop an individual from acting as the examiner and conducting an independent examination. However, active participation in the administration of the charity, for example, through tabling resolutions at an AGM, would prevent them from conducting an independent examination.

2.10 If the examiner considers that they may have a conflict of interest or would not be perceived as being independent then they should not carry out the independent examination. The examiner must also ensure that they are not dependent upon the charity or are involved in giving significant support to the charity.

2.11 Similarly if the examiner has delegated certain tasks to their own employees to carry out, those staff involved must meet the same standard of independence of the charity as the examiner and have relevant experience and knowledge (see [section 3](#)).

## Direction 3

### Documentation – record your independent examination

**The examiner shall record the examination procedures carried out and any matters which are important to support conclusions reached or statements provided in the examiner's report.**

#### Guidance

3.1 The examiner's **working papers** should provide details of the work undertaken to support any conclusions reached, and record any matters of judgement which may arise. Where accruals accounts are prepared then examiners should also refer to **Direction 10**. Working papers should normally be retained by the examiner for six years from the end of the financial year to which they relate, and would include:

- a communication with the charity trustees which confirms their appointment as the independent examiner and, in the case of an independent examiner charging a fee or receiving any form of payment, they should prepare a **letter of engagement**
- a letter of engagement, where appropriate, from the independent examiner to the trustees, together with evidence that this has been accepted by the trustees, for example, a copy of the engagement letter signed by a representative of the trustees
- relevant information extracted or obtained from the governing document, charity trustees' meeting minutes and a record of discussions with the charity trustees and staff
- 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 the checks or vouching carried out during the examination, the conclusions reached and any areas of concern identified
- where items are added together as a single entry in the accounts, schedules showing the breakdown of accounting items that have been aggregated for accounts disclosure purposes
- copies of any trial balance and the accounts
- the trustees' annual report required under **Direction 11** and, in exceptional circumstances, copies of any written assurances that the examiner required of the charity trustees confirming amounts included within the accounts.

3.2 Where the examiner has cause to resign, or is unable to complete their independent examination, they should consider the circumstances carefully and decide if a duty to report to the Commission has arisen, for example, if they have been prevented from completing the examination or have been obstructed by charity trustees or charity staff in carrying out their examination. Even if there is no duty to report, the examiner may decide that 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 matters to the Commission is provided in [section 6](#).

## Direction 4

### Understanding the charity - plan your independent examination

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**The examiner shall obtain an understanding of the charity's constitution, organisation, accounting systems, activities and nature of its assets, liabilities, incoming resources and application of resources in order to plan the specific examination procedures appropriate to the circumstances of the charity.**

#### 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 will need to know about the operations, structure and purposes of the charity. This understanding will help the examiner plan the independent examination by identifying major projects and important activities of the charity, possible problems/concerns and provide background to their analytical review. The steps taken by an examiner should normally include:

- considering the governing document of the charity, paying particular attention to the charity's purposes, powers and obligations
- considering any matters which would give rise to a statutory duty to make a report to the Commission (see [section 6](#))
- discussions with charity trustees and, where appropriate, the charity's staff, to understand the activities, structure, aims and objectives by which the charity seeks to achieve its purposes for the public benefit
- discussions with the charity trustees and, where appropriate, the charity's staff, about the activities of the charity in order to gain an insight into any special circumstances and problems affecting the charity
- reviewing minutes of charity trustees' meetings to find out about details of major events, plans, decisions and any changes to the trustee body
- obtaining details of the accounting records maintained and methods of recording financial transactions.

4.2 Normally a discussion with one of the charity trustees and the person who prepared the accounts should provide all information or explanation required. However, if during the independent examination a lack of formal trustee meetings, or an absence of minute keeping or appropriate record keeping, or over-reliance on a key individual, is identified, then the examiner may need to confirm or discuss significant matters with two or more of the charity trustees and/or members of the charity's staff to gain the necessary background information for the examination.

## Direction 5

### Check that accounting records are kept and not materially misstated

**The examiner shall review the accounting records maintained in accordance with section 63 of the Charities Act (Northern Ireland) 2008, 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, in order to provide a reasonable basis for the identification of any material failure to maintain such records.**

#### Guidance

5.1 The charity trustees are responsible for maintaining the accounting records. This is an important responsibility and an absence of well organised and complete accounting records gives rise to a significant risk of misstatement and loss from fraud, theft, or the **misappropriation** of charitable funds.

5.2 The examiner is required to review the accounting records with a view to identifying any material failure to maintain such records in accordance with the charity trustees' legal duty. A simple review should indicate whether records or vouching documentation such as invoices, receipts, claims and similar paperwork, have been kept to support the accounts and whether they appear reasonably complete. Further evidence of the completeness of those records may come from any form of vouching undertaken following the analytical review. For charity trustees of charities that are not companies their duty to maintain accounting records is under section 63 of the Charities Act. For charity trustees, normally referred to as directors, of charitable companies their legal duty is under section 386 of the Companies Act 2006.

5.3 The review procedures are not aimed at identifying the occasional omission or insignificant error but, rather, at identifying any significant failure to maintain records in a manner consistent with the statutory requirements.

5.4 Accounting records should be well organised and capable of ready retrieval and analysis. The records may take a number of forms, for example, book form, loose-leaf binder or computer records.

5.5 The accounting records should:

- be up to date
- be readily available

- provide the basic information from which the financial position can be ascertained, not only at the year end, but also on any selected date
- contain details of all money received and expended, the date, and the nature of the receipt or expenditure
- contain details of assets and liabilities.

5.6 Smaller charities may not have maintained **nominal ledgers** to record assets and liabilities and, in such instances, the requirements can generally be met by maintaining a simple record of transactions and files for unpaid invoices and amounts receivable. A record of stocks and fixed assets is also generally necessary to meet the accounting requirements.

5.7 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.

5.8 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.

## Direction 6

### Check that the charity accounts are consistent with the accounting records

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**The examiner shall compare the accounts of the charity with the charity's accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts are consistent with such accounting records.**

#### Guidance

6.1 It is necessary to compare the accounts with the underlying accounting records to be satisfied that the accounts properly show what income the charity has received, how it has spent its charitable funds and, where transactions relate to restricted or endowment funds, that these have been properly recorded and identified in the accounts.

6.2 Fund accounting is a distinctive feature of charity accounting. It is essential that the charity trustees have a good understanding of the types of charitable fund they are administering, the purposes for which those funds can be used, and any restrictions on their use. Whether receipts and payments or accruals accounts are prepared the accounts must separately identify the types of fund and the transactions for each fund. The examiner must therefore also understand what the different types of fund are so as to be able to confirm that the different types of fund held by the charity have been accounted for correctly and to confirm that no material breach of trust has taken place in the use of charitable funds in the reporting period. If the charity is preparing accruals accounts refer to module 2 of the Charities SORP.

6.3 Where accounts are prepared on an accruals basis, all balances in the accounts will need to be compared with the trial balance or any nominal ledger maintained.

6.4 Where accounts are prepared on a receipts and payments basis, a direct comparison with the cash records of the charity should be carried out if no nominal ledger is kept. Records 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, on paper, or entries in a spreadsheet of amounts paid and received with an explanation by each amount. The statement of assets and liabilities can be a simple schedule of information. In compiling the statement of assets and liabilities some estimation and judgement may be required if values are entered for assets and liabilities.

6.5 Where entries for transactions are not made directly into the nominal ledger, test checks will also be necessary of the posting of entries from books of prime entry, for example cash books, any sales or purchase ledgers, or other day books recording transactions, to the trial balance itself. Similar checks are necessary even where accounting records are maintained by using computer accounting packages.

6.6 A review of **bank reconciliations**, **payroll summaries** and **control accounts** prepared will provide a useful check as to the completeness of posting from the primary accounting records where the transaction is first recorded, ie the books of prime entry.

6.7 There is no requirement for accounting entries to be checked against source documents such as invoices, supplier statements, purchase orders, or Gift Aid records unless concerns arise during the course of the examination or following the analytical review (Direction 8) which cannot be resolved by seeking explanations from the charity trustees or, where appropriate, the charity's staff, or the explanations given are insufficient.

6.8 Whilst the charity trustees are responsible for the preparation of the accounts, on occasion the examiner may also prepare the **statutory accounts** on behalf of the charity trustees. The preparation of accounts will not generally impinge on independence provided the examiner ensures that the requirements of the Directions are met and provided that:

- the accounting records (the books of prime entry) have been maintained by another person
- the examiner has had no direct involvement in the day-to-day management or administration of the charity.



## Direction 7

### **Check that any identified conflicts of interest and/or related party transactions were properly authorised and appropriately disclosed**

**If during the independent examination the examiner identifies a conflict of interest was present and/or a related party transaction took place, the examiner must check if the charity trustees had a process in place to recognise, record, approve and report any conflicts of interest, including related party transactions. Where accruals accounts are prepared, the examiner must check that any related party transactions they have identified are fully disclosed in the notes to the accounts.**

#### **Guidance**

7.1 The charity trustees have independent control over, and legal responsibility for, a charity's management and administration. In carrying out this role the charity trustees should make decisions exclusively in the interest of the charity and, in doing this, take steps to identify any conflict of interest, prevent the conflict of interest affecting the decision and make a record of it and how the matter was dealt with. Any private benefit to a trustee or a **related party** must be authorised, necessary and incidental to the charity fulfilling its charitable purposes. Where payments have been made to charity trustees, the charity trustees should have followed the procedures set out in the governing document together with the Commission's guidance *EG046 Making payments to trustees*.

7.2 Conflicts of interest and related party transactions must be recognised and recorded but the requirement to publicly disclose related party transactions differs depending upon the format of the accounts prepared.

7.3 Accruals accounts are prepared following the Charities Statement of Recommended Practice (SORP) and so you should refer to module 9. The SORP requires the disclosure of related party transactions in the notes to the accounts.

7.4 If there have been none then the SORP requires a nil disclosure is made in the notes to the accounts or, if there have been such payments, then certain particulars must be disclosed in the notes to the accounts. In relation to the payment of trustee expenses and trustee remuneration, if none have been paid then a nil disclosure is made in the notes to the accounts or, if there have been

such payments, then certain particulars must be disclosed in the notes to the accounts.

7.5 Although the disclosure of the payment of trustee expenses, trustee remuneration and related party transactions is not a requirement for receipts and payments accounts, such disclosures are evidence of good practice.

7.6 Unauthorised trustee benefit and/or trustee remuneration and related party transactions which are for private benefit rather than in the interests of the charity pose a potential risk of material misstatement in the accounts. The examiner must check whether any required disclosures have been made and if those disclosures fully comply with the requirements of the applicable SORP which specifies what must be disclosed. Partial, incomplete or omitted disclosures are evidence of non-compliance with the SORP as the SORP considers these types of transaction as always being material.

7.7 The examiner should consider whether the charity trustees have followed the Commission's guidance in making decisions dealing with conflicts of interest and, if the relevant records have not been fully kept throughout the reporting period, then the examiner must consider their duty to report to the Commission (see [section 6](#) for guidance) and the implications for their independent examiner's report (**Direction 12**).

## Direction 8

### **Analytical review– identify items to review and follow up for further information**

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**The examiner shall carry out analytical procedures to identify unusual items or disclosures in the accounts. Where items found are material to the accounts, the examiner must seek an explanation from the charity trustees and/or obtain supporting evidence to gain assurance that the charity accounts are not materially misstated. If, after following such procedures, the examiner is unable to obtain that reasonable assurance and has reason to believe that, in any respect, the accounts may be materially misstated, then the matter must be referred to in their report.**

#### **Guidance**

8.1 The analytical review is an important part of the independent examination. The examiner must undertake an analytical review of the accounts to identify any material changes between the reported and previous period that require explanation, verification or discussion with charity trustees.

8.2 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 should be looking for material items, differences or changes which require further review or explanation.

8.3 For accruals accounts the analytical review involves both the **SoFA** and the balance sheet with the analysis comparing both the income and the expenditure and the movement in balance sheet values in the current year with the previous year. The examiner of accruals accounts will be looking for material values which require review.

8.4 It is important 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. It is important that the analytical review is documented carefully in the examiner's working papers.

8.5 It may be that having undertaken the analytical review the examiner has already come across the necessary explanations or confirmation and so no further action is taken. For those items identified in the analytical review for which the examiner does not already 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 to the Commission (see [section 6](#)) and the implications for their independent examiner's report (see [Direction 12](#)).

8.6 In carrying out the analytical review, steps taken would normally include:

- comparing the accounts with those for comparable prior periods
- comparing the accounts with any budgets or forecasts that have been produced
- considering whether incoming resources are 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
- considering whether the spending of charitable resources is consistent with the activities and purposes 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 (see [Direction 4](#))
- considering 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
- considering whether fixed asset investments are producing income consistent with the nature of assets held
- considering whether any tangible fixed assets held are consistent with the scale and type of activities undertaken by the charity
- where accruals accounts are prepared, confirming with the charity trustees that they are satisfied that the charity is a **going concern** and that there are no post balance sheet events requiring adjustments to be made to the accounts or disclosure in the notes to the accounts.

8.7 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](#)).

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

- physical inspection of a tangible fixed asset
- verification of title to an asset

- inspection of third party documentary evidence, for example an 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.

8.9 The examiner should 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, and should record what, if any, additional procedures they undertook. This is an area in which the examiner will need to exercise judgement and to draw on experience as to what is reasonable given the size and nature of the charity's activities.

## Direction 9

### Check the form and contents of accounts

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The examiner shall carry out such procedures as they consider necessary to provide a reasonable basis on which to decide 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 under section 64 of the Charities Act (Northern Ireland) 2008, that all the accounting statements are present and that the funds of the charity are correctly identified**
- **where accruals accounts are prepared, check that they comply with the form and content requirements of the accounting and reporting 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)**
- **if the charity is a company, check that the accounts are prepared in accordance with section 396 of the Companies Act 2006, and are prepared in accordance with the methods and principles of the SORP.**

### Guidance

9.1 Charities that have a gross income of £250,000 or less may be eligible to prepare receipts and payments accounts, unless their governing document dictates that, for example, accruals accounts must be prepared. Charities that exceed this threshold, and all charitable companies irrespective of their income, must prepare accruals accounts in accordance with the applicable SORP.

9.2 The accounting and reporting regulations do not specify the **form and content** of accounts prepared on a receipts and payments basis. The Commission provides a receipts and payments toolkit with a pro forma layout for such accounts on its website. 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 accounts the examiner should treat those accounts as receipts and payments accounts, otherwise the accounts should be regarded as accruals accounts and examined accordingly.

9.3 Where accruals accounts are prepared the examiner will require access to the SORP and an understanding of its principles to ensure compliance with the accounting and reporting regulations.

9.4 Where accounts are prepared on an accruals basis, the accounting and reporting regulations require the accounts to be prepared in accordance with the methods and principles of the applicable SORP. The SORP requires all charities preparing accruals accounts to prepare a SoFA, balance sheet, and accompanying notes to the accounts. Charities eligible for independent examination have greater flexibility and can refer to the SORP for details of concessions available for smaller charities preparing accruals accounts.

9.5 The accounting and reporting regulations concerning the content of accounts do not apply to the accounts of charitable companies. The accounts of charitable companies must be prepared in accordance with section 396 of the Companies Act 2006. The charity 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 the SORP. Financial Reporting Standard 102, Section 10, Accounting Policies, requires particular disclosures to be made and explanations to be provided where the SORP has not been followed.

9.6 The examiner should review accruals accounts in sufficient detail to be able to identify any significant non-compliance with the accounting and reporting regulations and the methods and principles of the SORP. This will involve a review of the format of the SoFA and balance sheet and the inclusion of necessary notes to the accounts. These review procedures should be sufficiently detailed to enable the examiner to decide whether or not any non-compliance with the accounting and reporting regulations or the SORP should be identified in the examiner's report.

9.7 Examples of SORP compliant accounts are available on the [SORP microsite](#).

9.8 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, s474(2) of the Companies Act 2006 substitutes income and expenditure account for any reference to the profit and loss account. In addition a balance sheet is required and additional information is to be provided in the notes. The 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 will review the two statements for consistency.

9.9 Readers should refer to the Commission's guidance, available on our website [www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk), to confirm the thresholds and the full accounting and reporting requirements that apply.



## Direction 10

### Check the reasonableness of significant estimates, judgements, and accounting policies, used in the preparation of accounts

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**When accounts are prepared under section 64 of the Charities Act (Northern Ireland) 2008 or, in the case of a charity which is a company, prepared under section 396 of the Companies Act 2006, the examiner shall review the accounting policies adopted and consider their consistency with the applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP) and their appropriateness to the activities of the charity. The examiner must also consider and review any significant estimate or judgement that has been made in preparing the accounts.**

#### Guidance

10.1 Receipts and payments accounts report cash book transactions in the period and so are not affected by this Direction. If accounts are prepared on a receipts and payments basis under section 64(3), the only fundamental accounting concept which applies is that of fund accounting and consistency of presentation within the accounts. **Accounting policies** and judgemental issues have less relevance since the receipts and payments account is simply a factual record of money actually received and spent. The statement of assets and liabilities is a simple schedule of information.

10.2 Further guidance as to the form and content of receipts and payments accounts can be found in the Commission's guidance document [ARR03 Receipts and payments accounts](#) and the receipts and payments toolkit available on the Commission's website.

10.5 Accounts prepared on an accruals basis involve accounting policies that determine how transactions and events are reflected in accounts and estimates. Judgement may be necessary to arrive at monetary values to be included in accounts, for example, the time over which an asset is depreciated.

10.6 Where accounts are prepared on an accruals basis or under section 396 of the Companies Act 2006 the charity trustees must prepare accounts to give a 'true and fair' view. The accounting policies adopted, and any estimates or judgements made in preparing the accounts, may have a material effect on both the financial activities and state of affairs disclosed by those accounts. Such matters require careful consideration by the examiner although they do not have to form an opinion on whether the accounts give a 'true and fair' view.

10.7 The examiner should be satisfied that accounts are prepared on a basis consistent with the going concern assumption and accruals concept, and evaluate the accounting policies adopted and applied for appropriateness to the activities of the charity, and consistency with the applicable SORP. The accounting policies adopted should ensure a relevant, reliable, comparable and easily understood accounts presentation.

10.8 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.

10.9 The examiner should evaluate whether the accounting policies adopted are consistent with the methods and principles set out in the SORP. Where they are not, this should be drawn to the attention of the charity trustees and, if the effect on the accounts is material, the matter should be reported in the examiner's report unless corrected.

10.10 Where accounts are produced under the Companies Act the charity trustees must prepare the accounts to give a 'true and fair' view, however, the examiner is not required to provide an opinion as to whether the accounts give a 'true and fair' view. Where accounting policies are not consistent with the SORP, this should be drawn to the attention of the charity trustees by the examiner, and the item(s) in question, if the inconsistency is material, should be reported in the examiner's report unless corrected.

10.11 The SORP requires any departure from its recommendations to be explained in the notes to the accounts of both company and charities which are not companies. 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 SORP has been provided. Where a material departure has not been adequately justified or explained, the examiner should make a comment in their report.

10.12 The examiner must evaluate the reasonableness of any estimates or judgements made in preparing the accounts where these are material to the accounts. Matters that may require consideration include:

- 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 categories of the SoFA.

## Direction 11

### Compare the trustees' annual report with the accounts for consistency

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

#### Guidance

11.1 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 and must be prepared by the charity trustees. The Commission's guidance *ARR08 The trustees' annual report and public benefit reporting* sets out the information that should be contained in the trustees' annual report for relevant financial years. The legal requirements concerning the trustees' annual report that apply to registered charities are set out in the accounting and reporting regulations.

11.2 The examiner must carry out procedures directed at identifying 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. For example, a review should identify where amounts stated in the trustees' annual report are not consistent with those in the accounts or the nature or scale of activities described are inconsistent with the level of activity disclosed in the accounts. The level of reserves stated in the trustees' annual report should be consistent, where accruals accounts are prepared with amounts disclosed in the charity's balance sheet, or where receipts and payments accounts are prepared, with the available unrestricted funds held in cash.

11.3 Where inconsistencies are identified which are significant, this 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 Independent Examiner's report (see **Direction 12**).

11.4 Charity trustees are required to report on public benefit in their trustees' annual report and they must confirm they have read the Commission's *Public benefit requirement* statutory guidance. If charity trustees have made reference to items in the accounts as part of their explanation of public benefit, then those figures should be consistent with the accounts.

11.5 When accounts are prepared under section 64 of the Charities Act or, in the case of a charity which is a company, prepared 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). They must identify any major inconsistencies and considering the significance such matters will have on a proper and accurate understanding of the charity's accounts.

11.6 The examiner is required by regulation 25 of the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 to comment where any information contained in the accounts is inconsistent with any report of the charity 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 64(3) there is no requirement placed on the examiner to comment on whether an inconsistency is present but examiners should so report if they come across such an inconsistency.

## Direction 12

### Write and sign the independent examiner's report

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**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 accounting and reporting regulations. If the examiner has identified a matter of concern because one or more of the specific matters listed in the accounting and reporting regulations or this Direction are present or remain unresolved then the examiner must normally bring it to the charity trustees' attention in the examiner's report.**

#### Guidance

##### Preparation for writing the report

12.1 The examiner's report is the outcome of an independent examination and is addressed to the charity trustees. It either confirms that all the matters the examiner is required to review as set out by the accounting and reporting 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.

12.2 The examiner needs to consider carefully the conclusions drawn from their examination, and the impact of these conclusions on their report. Examples of independent examiners' reports are provided in a separate supplementary document *Guidance for Independent Examiners – template reports*, in the annual reporting section of the Commission's website. It is the examiner's report and, in signing it, the examiner takes responsibility for the independent examination fulfilling the requirements of the Charities Act, accounting and reporting regulations and the Directions. This responsibility cannot be delegated to, or reliance placed upon another person.

12.3 The accounting and reporting regulations set out the legal requirements for an independent examiner's report. The regulations do not specify how the examiner lays out the report but it specifies the content that must be covered in the report. The examiner should follow the format of the sample accounts provided in the supplementary template document unless the particular circumstances require an alternative approach.

12.4 Some charities registered in Northern Ireland may also operate in Scotland and may therefore need to register with the Office of the Scottish Charity Regulator (OSCR). In such cases, the examiner's report will also need

to meet the requirements of Scottish charity law. Further guidance for the examiner of the accounts of 'cross-border charities', as they are called in Scotland, is provided in [appendix 3](#) together with example reports.

### The required contents of the report

12.5 The examiner must, in making their report, fulfil all the requirements of the accounting and reporting regulations. Regulation 25 requires the examiner to state whether or not any of the matters set out in regulations 25(h), 25(i), and 25(j) are apparent or have come to the examiner's attention and to state whether or not any additional matter is reported as required by regulation 25(i).

12.6 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 in respect of which the accounts to which the report relates have been prepared 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 qualification which enables the examiner to act as an independent examiner (must be a member of the listed bodies, see [section 3](#))
- the professional qualification 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 provided relates to an independent examination carried out under section 65 of the Charities Act
- that the examination has been conducted in accordance with the Directions given by the Commission.

12.7 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 a charity that is not a company have not been kept in accordance with section 63 of the Charities Act
- where the charity is a charitable company, the accounting records have not been kept in accordance with section 386 of the Companies Act 2006
- the accounts do not accord with the accounting records
- where the accounts are prepared on an accruals basis for a charity that is not a company under section 64 of the Charities Act and those accounts do not comply with the requirements of the accounting and reporting

regulations setting out the form and content of charity accounts (see **Direction 9**).

- 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.

12.8 Also the examiner must consider whether any matters of concern have come to their attention as a result of their independent examination and which, in their opinion, attention should be drawn in the report to enable a proper understanding of the accounts to be reached.

#### Consideration of matters of concern to draw to attention in the report to enable a proper understanding of the accounts to be reached

12.9 The examiner must state whether or not any matter has come to their attention in connection with the examination to which, in their opinion, attention should be drawn in the report to enable a proper understanding of the accounts to be reached. It is expected that only significant matters will be reported.

12.10 There is a requirement to provide a statement if the following specific matters 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
- 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
- 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 directors' report.

12.11 In order to identify any material expenditure or activities undertaken outside the purposes of the charity, an understanding of the stated purposes of the charity, set out in its governing document, is necessary. Small or immaterial levels of expenditure outside of the purposes 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 would be a significant concern and details should be included in the examiner's report. The examiner need not carry out specific checks or procedures to identify such breaches but such matters when identified must be included in the examiner's report.

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

12.12 Where accruals accounts are prepared attention is drawn to matters which are material to the accounts. These matters should be brought to the attention of the charity trustees with a view to seeking an amendment or adjustment to the accounts. If the charity trustees decline to agree to change and the concern still exists, this must be fully explained in the examiner's report together with the financial effects on the accounts.

12.13 Where the concern relates to non-compliance to the form and content of the accounts or material inconsistency with the applicable SORP, the matter should be raised first with the charity trustees to seek the necessary amendment 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.

12.14 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 6](#) of this guidance).

12.15 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 the amendment of the discrepancy. If the charity 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

12.16 The examiner must sign and date the charity trustees' copy of their examiner's report. For the version of the examiner's report which is filed with the Commission the signature may be typed as the examiner's own name. The examiner may choose to add the name of any business or firm in addition to signing in their own name. 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 [section 3](#) of this guidance).

12.17 The examiner must not sign their report before the charity trustees have approved and signed the trustees' annual report and the accounts. Until the charity trustees have approved and signed the accounts, the accounts are draft and not final.



12.18 The charity trustees are responsible for filing the independent examiner's report together with the trustees' annual report and the accounts with the Commission. The examiner may do this on their behalf if the charity trustees authorise this. Any authority to file should be given in writing by the charity trustees.

12.19 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 6](#) of this guidance.

12.20 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 give an opinion only on a matter where they have found that a requirement has not been met.

## Section 6: Whistle blowing – duties of independent examiners to report matters of material significance

Section 67 of the Charities Act places a duty upon independent examiners 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, which they have reasonable cause to believe is likely to be of material significance for the purpose of the exercise by the Commission of its functions under sections 22 or 33 of the Charities Act.

In addition to undertaking an independent examination of the accounts, the examiner has a separate legal responsibility to report to the Commission if a matter of material significance to its regulatory functions is identified. This duty applies to the independent examination of all registered charities.

The examiner's duty is to report matters of material significance that they come across in undertaking the independent examination in accordance with the Directions. The duty is on the examiner to report to the Commission immediately upon becoming aware of the matter of material significance and to make the report in writing.

Normally the matter will relate to the year the examiner is reporting upon but, where 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. 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, along with the Charity Commission for England and Wales (CCEW) and the Office of the Scottish Regulator (OSCR), is consulting on matters of material significance to be reported to a UK charity regulator. The consultation is seeking views on proposed UK wide matters to be reported by auditors and independent examiners and this consultation will close on 11 September 2016. The draft matters currently under consultation are included at [appendix 4](#). For further information, refer to the Commission's website [www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk).

Following the consultation, on agreement of a definitive list of matters, this guidance will be updated to help independent examiners understand their legal responsibilities in relation to reporting any matters of material significance. This will include an example report that independent examiners making a report to the Commission may wish to use.

If an independent examiner believes a matter may not be of material significance, but may still be relevant to the Commission carrying out its functions, they **may** still report the matter.

If an examiner ceases to act as an independent examiner for a charity, the duty to report a matter of material significance or matter which may be relevant to the Commission in exercising its functions remains.

# Appendix 1: Calculation of gross income

The Charities Act 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 receipts and payments accounts:** gross income is the total receipts recorded in the statement of accounts excluding endowments, loans and proceeds from the sale of investments or fixed assets.

**For accruals accounts:** gross income is the total incoming resources as shown in the SoFA prepared in accordance with the SORP for all funds, but:

- excluding any endowment
- including any amount transferred from endowment funds to income funds during the year so as to be available for expenditure.

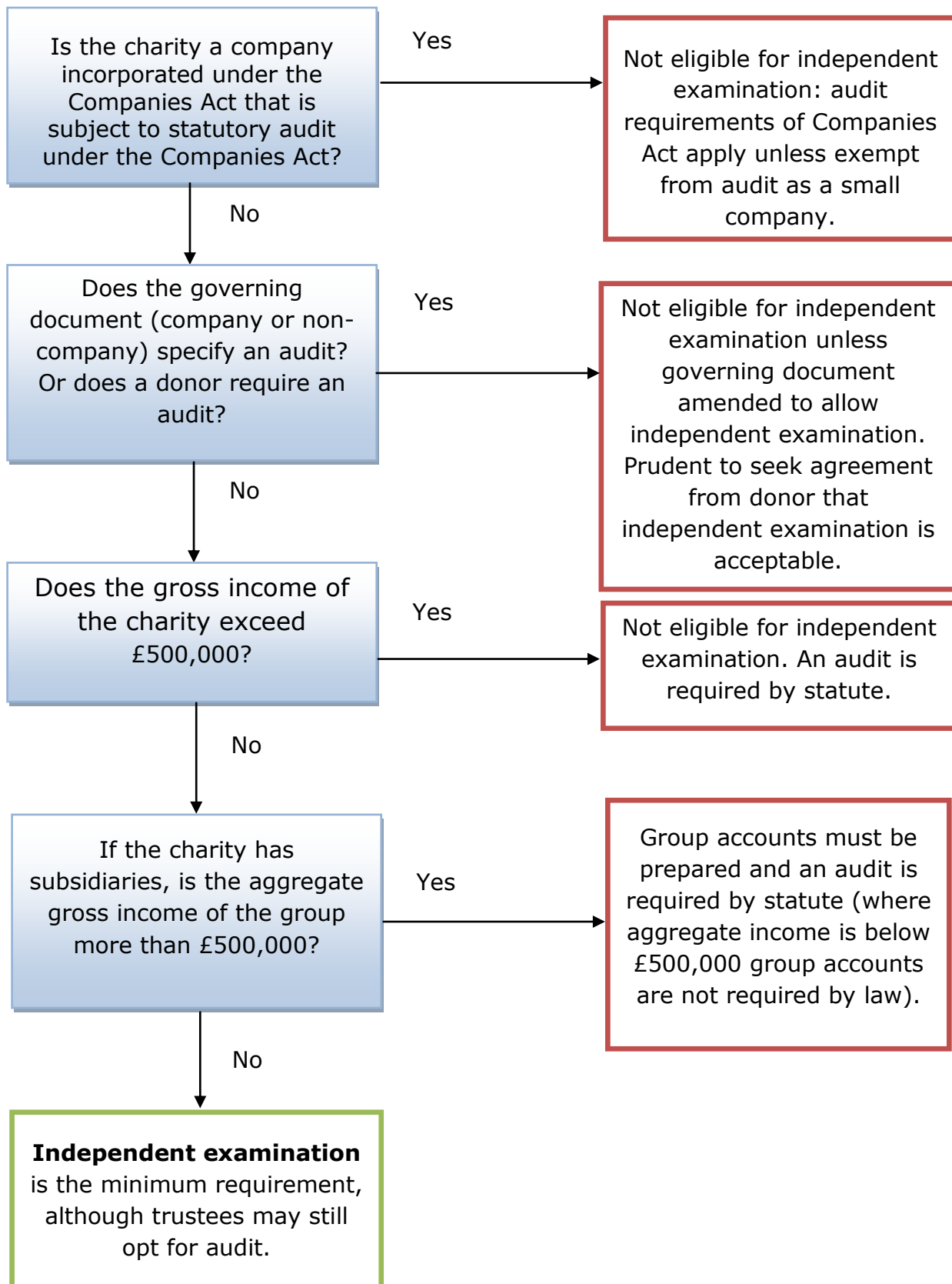
Note that the SORP excludes from total incoming resources any gains on revaluation of fixed assets or gains on investments. Such gains do not form part of gross income for threshold purposes.

## The definition of gross income for a group

Regulation 16 of the accounting and reporting regulations sets out the threshold for group accounts for financial years commencing on or after 1 January 2016. The calculation for the gross income threshold for a group is:

- the gross income of the group net of intra group transactions exceeds £500,000, 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), and
  - 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 2: Flowchart: eligibility requirements for independent examination



## Appendix 3: Charities based in Northern Ireland also operating in Scotland

Since the introduction of the Charities and Trustee Investment (Scotland) Act 2005, some charities based in Northern Ireland, which operate in Scotland, may now also need to register with the Office of the Scottish Charity Regulator (OSCR). Examiners of charities that operate in Scotland, and which are registered with OSCR, should be familiar with the accounting guidance issued by OSCR. Examiners should also note that, where a matter of material significance is identified, the report made to the charity regulator should be forwarded to both the Commission and OSCR who will determine which regulator takes the matter forward. OSCR does not insist on separate Scottish accounts where accruals accounts are prepared under the SORP. Accounts prepared under the SORP will be accepted for filing in both jurisdictions provided some narrative in the trustees' annual report addresses activities in Scotland.

If the charity prepares receipts and payments accounts there are some additional requirements that need to be met. The main difference is that a 'Statement of Balances' is prepared instead of a 'Statement of Assets and Liabilities' and certain notes to the accounts are required. Guidance on Scottish accounting requirements is available from [OSCR](#) including guidance on [Receipts and payments accounts](#). The Commission will accept receipts and payments accounts that meet Scottish requirements for the accounts and the trustees' annual report. The 'Statement of Balances' should, however, be titled 'Statement of Balances (including a Statement of Assets and Liabilities)' for filing with the Commission. No additional changes are needed as Scottish requirements meet or exceed requirements for charities in Northern Ireland.

Trustees and examiners acting for charities which are also registered in Scotland are strongly recommended to view OSCR's website. In particular, trustees should ensure that the examiner meets the requirements of Scottish charity law and note that, in all cases where accruals accounts are prepared by a charity registered with OSCR, the examination must be undertaken by a 'qualified independent examiner' as defined in the Charities Accounts (Scotland) Regulations 2006. The accounts of charities registered in Scotland must be filed with OSCR within 9 months of the end of an accounting year.

The examiner may prepare a combined examination report that satisfies the requirements of both jurisdictions. Example reports are provided on the following pages for charities established in Northern Ireland which operate in Scotland. The examiner should consider amending their report where a new SORP is published.

## **Example 1: examiner's unqualified report (for a charity that is not a company, is also registered with OSCR and is preparing accruals accounts)**

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

I report on the accounts of the Trust for the year ended 30 April 2016, which are set out on pages 00 to 00.

### **Respective responsibilities of trustees and examiner**

As the charity's trustees you are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 65(2) of the Charities Act (Northern Ireland) 2008 (the Charities Act) or under Regulation 10(1)(a) to (c) of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) and that an independent examination is needed. The charity is preparing accrual accounts and I am qualified to undertake the examination by being a qualified member of [named body].

It is my responsibility to:

- examine the accounts under section 65 of the Charities Act (Northern Ireland) 2008 and under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act)
- follow the procedures laid down in the general Directions given by the Charity Commission for Northern Ireland under section 65(9)(b) of the Charities Act (Northern Ireland) 2008
- 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 for Northern Ireland and is in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006. 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 next statement .

### **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 63 of the Charities Act 2008 and section 44(1)(a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations and
- to prepare accounts which accord with the accounting records and comply with the accounting requirements of the Charities Act 2008 and section 44(1)(b) of the 2005 Act and Regulation 8 of the 2006 Accounts Regulations

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:



## **Example 2: unqualified report (for an unincorporated charity also registered with OSCR preparing receipts and payments accounts)**

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

I report on the accounts of the Trust for the year ended 30 April 2016, which are set out on pages 00 to 00.

### **Respective responsibilities of trustees and examiner**

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 65(2) of the Charities Act (Northern Ireland) 2008 (the Charities Act) or under Regulation 10(1)(d) of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Accounts Regulations) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 65 of the Charities Act (Northern Ireland) 2008 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act)
- to follow the procedures laid down in the general Directions given by the Charity Commission for Northern Ireland under section 65(9)(b) of the Charities Act
- to 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 for Northern Ireland and is in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006. 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 next statement.

### **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 63 of the Charities Act and section 44(1)(a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations and
- to prepare accounts which accord with the accounting records and comply with the accounting requirements of the Charities Act 2008 and section 44(1)(b) of the 2005 Act and Regulation 9 of the 2006 Regulations

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:

### **Example 3: examiner's unqualified report (for a company charity also registered with OSCR)**

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

I report on the accounts of the company for the year ended 30 April 2016, which are set out on pages 00 to 00.

#### **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 65(2) of the Charities Act (Northern Ireland) 2008 (the Charities Act) or under Regulation 10 (1)(a) to (c) of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Accounts Regulations) and that an independent examination is needed. The charity is required by company law to prepare accrued accounts 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 65 of the Charities Act and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act)
- to follow the procedures laid down in the general Directions given by the Charity Commission for Northern Ireland under section 65(9)(b) of the Charities Act
- to 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 for Northern Ireland and is in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006. 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 next statement.

## **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 section 44(1)(a) of the 2005 Act and
- to prepare accounts which accord with the accounting records, comply with the accounting requirements of the Companies Act 2006, section 44(1)(b) of the 2005 Act and Regulation 8 of the 2006 Accounts Regulations and
- which are consistent 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:

## Appendix 4: Proposed matters of material significance

Proposed matters of material significance – out for consultation 19 May 2016 to 11 September 2016	
1.	Matters suggesting dishonesty or fraud involving a material loss of, or a material risk to, charitable funds or assets.
2.	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.	During the audit/independent examination knowledge or suspicion that the charity or charitable funds or 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.
4.	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, <b>with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998.</b>
5.	During the audit/independent examination 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.	Single or recurring breach(es) of either a legislative requirement or of the charity's trusts leading to material charitable funds being misapplied.
7.	During the audit/independent examination 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.	On making a modified audit opinion, emphasis of matter, 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/examiner's report.
9.	Evidence that, without reasonable cause, trustees have not taken action on matters identified by the auditor or examiner in their scrutiny of accounts for a previous year.
10.	During the audit/independent examination evidence that conflicts of interest have not been managed by the trustees in accordance with guidance issued by the charity regulator and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP.

## Appendix 5: Glossary of terms

Term	Definition
<b>Accounting and reporting by Charities: Statement of Recommended Practice (SORP)</b>	This means Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued by the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator on 16 July 2014, also known as the Charities SORP. It provides a comprehensive framework that enables charities to adopt a consistent interpretation of UK financial reporting standards (FRS) as well as account for those transactions that arise when undertaking charitable activities. The Charities SORP applies to all general charities that prepare accounts on an accruals basis.
<b>Accounting policies</b>	Accounting policies set out the rules or procedures for showing transactions and important events in the accounts. The accounting policies used by your charity should be relevant and reliable and allow the reader to understand the accounts and make the necessary comparisons.
<b>Accounting standards</b>	Accounting standards are authoritative standards for financial reporting and are the primary source of generally accepted accounting principles (GAAP). Accounting standards specify how transactions and other events are to be recognised, measured, presented and disclosed in financial statements in a way that reflects economic reality and hence provides a true and fair view.
<b>Accruals accounts</b>	Refers to accounts prepared on a 'true and fair' basis in accordance with accounting standards and the methods and principles of the applicable Statement of Recommended Practice (SORP). In contrast to receipts and payments accounts, where income and expenditure is accounted for only when the money is received or paid out, accruals accounts record the income of a particular activity when there is entitlement or probability about income, and expenses, when the liability is incurred. This is not necessarily the same date on which money is received or paid out. Accruals accounts prepared in accordance with the Charities SORP must contain a balance sheet showing the charity's financial position at the end of the year, a statement of financial activities (SoFA), a cashflow statement (if applicable) and explanatory notes to the accounts. The SoFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SoFA incorporates the income and expenditure account).
<b>Bank reconciliation</b>	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 transactions, for example, cheques that have been written but not presented and bankings

<b>Term</b>	<b>Definition</b>
	that have been made but not credited, effected on or prior to the closing bank balance.
<b>Charitable company</b>	This is a charity, which is formed and registered under the Companies Act 2006 or a charity which was already established under previous companies legislation. It is registered with Companies House. Its governing document is its articles of association and it has its own legal identity. It must be established for exclusively charitable purposes.
<b>Charities Act (Northern Ireland) 2008</b>	<p>The Charities Act (Northern Ireland) 2008 is the main piece of legislation establishing the Charity Commission for Northern Ireland and setting out its functions and powers.</p> <p>References to 'the Charities Act' are to the Charities Act (Northern Ireland) 2008. The full content of the Charities Act can be found at <a href="http://www.legislation.gov.uk">www.legislation.gov.uk</a></p> <p>Not all of the sections of the Charities Act are in force yet. Details of the sections that are in force are available on the Commission's website <a href="http://www.charitycommissionni.org.uk">www.charitycommissionni.org.uk</a></p>
<b>Charity trustees</b>	<p>These are the people who are legally responsible for the control and management of the administration of a 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. Some people are disqualified by law from acting as charity trustees. These disqualifications are set out in the Charities Act and broadly include but are not limited to anyone who:</p> <ul style="list-style-type: none"> <li>• has been convicted of an offence involving deception or dishonesty, unless the conviction is a spent conviction under the Rehabilitation of Offenders (NI) Order 1978</li> <li>• is an undischarged bankrupt or has made an arrangement with creditors</li> <li>• has previously been removed as a trustee by the Commission or by the Courts</li> <li>• is subject to disqualification under company legislation.</li> </ul>
<b>Company law</b>	Throughout this guidance, references to company law are to the Companies Act 2006. The full content of the 2006 Act can be found at <a href="http://www.legislation.gov.uk">www.legislation.gov.uk</a>
<b>Control accounts</b>	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 occasions 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.

<b>Term</b>	<b>Definition</b>
<b>Endowment funds</b>	In simple terms, an endowment fund is a gift of property or money given to a charity as a restricted fund. Trust law requires a charity to invest the assets of an endowment, or to retain them for the charity's use in furtherance of its charitable purposes, rather than apply or spend them as income. The income generated from endowment funds held for investment, are then used to further the purposes of the charity.
<b>Evidence</b>	Evidence is 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.
<b>Form and content</b>	The statutory format of accounts as set out in the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015.
<b>Fraud</b>	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.
<b>Going concern</b>	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 unless it is necessary, or the trustees intend, to cease operational activities, wind up or liquidate the charity.
<b>Governing document</b>	A charity's governing document is any document which sets 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, conveyance, Will, Royal Charter, scheme of the Commission or other formal document.
<b>Group accounts</b>	Group accounts, also known as consolidated accounts, combine the activities, funds, assets and liabilities of the reporting parent charity with those of the subsidiaries it controls. They present the financial performance and financial position of the accounting group as though it were a single economic entity. The responsibility to prepare group accounts lies with the reporting 'parent' charity which controls or exercises dominant influence over one or more charitable or non-charitable subsidiaries. Group accounts must be prepared in accordance with legal requirements and UK accounting standards.
<b>Letter of engagement</b>	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



<b>Term</b>	<b>Definition</b>
	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.
<b>Misappropriation</b>	This means to apply or use money or assets owned by the charity dishonestly for someone's own use or other unauthorised purpose.
<b>Misconduct</b>	This includes any act (or failure to act) in the administration of the charity which the person committing it knew (or ought to have known) was criminal, unlawful or improper.
<b>Material/ materiality</b>	Materiality relates to an item that, in the judgement of the examiner, if 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. An accounting policy is sometimes described as material where the effect is material as to how an item or transaction is recognised, measured or disclosed in accounts. Where a policy does not conform with the SORP, the examiner has to consider whether the effect of that policy when applied to transactions or items in the accounts is so material as to affect the presentation or understanding of the accounts. In this guidance materiality is used in connection with Direction 10 (examiner's report) and accruals accounts (Direction 8 accounting policies, estimates and judgements) and requires the examiner to look at the underlying judgements, accountancy policies, or basis, for amounts that are material in the context of the accounts.
<b>Material significance</b>	This is a particular term used in the Charities Act which gives rise to the duty of an independent examiner to report matters to the Commission. Under the Charities Act, independent examiners and auditors must report to the Commission any matter they become aware of regarding a charity or any connected organisation, which they believe is likely to be of 'material significance' to the Commission in carrying out its functions under section 22 or 33 of the Charities Act. The report must be made immediately and in writing. For more information on 'matters of material significance' please see section 6 of this guidance.
<b>Mismanagement</b>	This includes any act (or failure to act) in the administration of a charity that may result in significant charitable resources being misused, the charity's reputation being undermined, or the charity being put at risk.
<b>Misstatement</b>	This 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.

<b>Term</b>	<b>Definition</b>
<b>Nominal ledger</b>	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.
<b>Non-statutory accounts</b>	Non-statutory accounts are accounts prepared by the trustees which are not prepared under or required by Part 8 of the Charities Act (Northern Ireland) 2008 and the applicable 2015 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.
<b>Payroll summaries</b>	Computerised or manual records indicating by named employee the gross salary paid, tax and national insurance and other employee related costs, for example, healthcare plan costs or employer contributions to defined benefit or defined contribution pensions, where applicable.
<b>Professional audit</b>	An audit which is undertaken by a person who is eligible under the Charities 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.
<b>Receipts and payments accounts</b>	This is a form of accounting that consists of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances. Company law requirements mean that a charitable company cannot prepare its accounts on a receipts and payments basis.
<b>Related party</b>	Related parties are those parties with whom the charity has a relationship that might inhibit it from objectively pursuing its own separate interests. This will include charity trustees, those connected with a charity trustee by, for example, a close family relationship, and any other party that can exert significant influence over the operations of the charity.
<b>Restricted income funds</b>	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 purposes of the charity.

<b>Term</b>	<b>Definition</b>
<b>Significant</b>	<p>This is a term that is used in this guidance in connection with:</p> <ul style="list-style-type: none"> <li>• the keeping of accounting records (Direction 5: Check that accounting records are kept and not materially misstated)</li> <li>• the analytical review carried out by the examiner (Direction 8: Analytical review- identify items to review and follow up for further information) and</li> <li>• describing the considerations that affect the examiner’s report (Direction 12: Write and sign the examiner’s report).</li> </ul> <p>With respect to accounting records (Direction 5), significance is used to describe the extent to which the records found are not complete or the extent to which missing information creates doubt about the adequacy of record keeping. Regarding the analytical review (Direction 8), it requires the examiner to think about whether a matter or an amount is significant in terms of its size or importance to require explanation. For the report (Direction 12), it is whether a finding that the examiner has made in their review is significant enough to need inclusion in the examiner’s report. Small amounts or minor matters will not be significant but can become significant if their occurrence is frequent or pervasive. Often significance can only be assessed when the examiner has either carried out the analytical review or has finished their work and is reflecting about what has been found and is preparing their report. A matter can be significant even if it’s not material in terms of its amount alone.</p>
<b>Statement of Financial Activities (SoFA)</b>	<p>The SoFA is a single accounting statement that shows all incoming and outgoing resources by activities and by fund. It shows where the resources come from, what they are spend on, and different types of fund as well as a year on year comparison.</p>
<b>Statutory accounts</b>	<p>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 (Northern Ireland) 2008 and the applicable 2015 Regulations, or where the charity is a company, Part 15 of the Companies Act 2006, to which are appended the required trustees’ annual report and, where required by law or the charity’s governing document, the external scrutiny report prepared by the auditor or independent examiner.</p>
<b>Statutory audit</b>	<p>An audit carried out in accordance with Part 16 of the Companies Act 2006 by a person eligible to act as a statutory auditor under Part 42 of the Companies Act 2006.</p>
<b>Trial balance</b>	<p>A listing of the closing balances on all of the separate individual accounts maintained within the charity’s manual records or computerised records.</p>
<b>Trustees’ annual</b>	<p>A trustees’ annual report is produced by the charity trustees and, along with your accounts, tells people:</p>

Term	Definition
<b>report</b>	<ul style="list-style-type: none"> <li>• about your charity’s work</li> <li>• where your money comes from</li> <li>• how you’ve spent your money in the past year.</li> </ul> <p>It must also include administrative information about the charity such as where the charity is based and who the charity trustees are. Minimum requirements are set out in the accounting and reporting regulations. Charities preparing accruals accounts must also incorporate the requirements set out in the Charities SORP. Larger charities must provide more detail within the trustees’ annual report than smaller charities. All charities must explain how the activities undertaken during the year have furthered the charity’s purposes for the public benefit. Further information can be found in <i>ARR08. The trustees’ annual report and public benefit reporting</i>.</p>
<b>Trusts</b>	These are the provisions establishing a charity and which regulate its purposes and administration whether the provisions take effect by trust or not.
<b>Unrestricted funds</b>	Funds which the trustees are able to spend at their discretion for any of the charity’s purposes. Unrestricted funds may also contain part of the 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.
<b>W3C Standards</b>	W3C accessibility standards consist of a set of guidelines for making content accessible especially to those web users who have a disability. This standard is recognised internationally.
<b>Working papers</b>	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.

## Useful links and guidance

*ARR01. Charity reporting and accounting: guidance summary*

*ARR02. Charity reporting and accounting: the essentials*

*ARR03. Receipts and Payments accounts*

*ARR04. Accruals accounts*

*ARR05. How to complete the annual monitoring return*

*ARR06. Charity reporting: Interim arrangements and the annual monitoring return*

*ARR07. Independent examination of charity accounts: examiner's guide*

*ARR08. The trustees' annual report and public benefit reporting*

*PBR1 Public benefit requirement guidance*

*CCNI EG046 Making payments to trustees*

*CCNI EG043 Equality guidance for charities*

*CCNI EG024 Running your charity*

*Receipts and payments toolkit*

*The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015*

*Department for Business Innovation & Skills* - publishes a number of helpful leaflets explaining the requirements of company law.

*HM Treasury* - HM Treasury guidance on the Proceeds of Crime Act 2002 and associated Money Laundering Regulations

Website of the developing governance group: [www.diycommitteeguide.org](http://www.diycommitteeguide.org)

## Useful contacts

We would encourage charity trustees to make use of the wide range of organisations that can help them run their charity as effectively as possible.

Association of Charity  
Independent  
Examiners (ACIE)      The Gatehouse  
White Cross  
South Road  
Lancaster  
LA1 4XQ

**Telephone:** 01524 34892  
**Website:** [www.acie.org.uk](http://www.acie.org.uk)

Charity Commission  
for England and  
Wales (CCEW)      PO Box 211  
Bootle  
L20 7VX

**Telephone:** 0300 066 9197  
**Website:**  
[www.gov.uk/government/organisations/charity-commission](http://www.gov.uk/government/organisations/charity-commission)

Companies House      Companies House Northern Ireland  
Second Floor, The Linenhall  
32 - 38 Linenhall Street  
Belfast, BT2 8BG

**Telephone:** 0303 1234 500  
**Website:**  
[www.gov.uk/government/organisations/companies-house](http://www.gov.uk/government/organisations/companies-house)

Department for  
Communities      Lighthouse Building  
1 Cromac Place  
Gasworks Business Park  
Ormeau Road  
Belfast  
BT7 2JB

**Telephone:** 028 9082 9000  
**Website:** [www.communities-ni.gov.uk](http://www.communities-ni.gov.uk)

HM Revenue and  
Customs (HMRC)      HM Revenue & Customs  
Charities, Savings and International 2  
HM Revenue and Customs  
BX9 1BU  
United Kingdom

**Telephone:** 0300 123 1073  
**Website:** [www.hmrc.gov.uk/charities](http://www.hmrc.gov.uk/charities)

Northern Ireland  
Council for Voluntary  
Action (NICVA)

61 Duncairn Gardens  
Belfast  
BT15 2GB

**Telephone:** 028 9087 7777

**Website:** [www.nicva.org](http://www.nicva.org)

Office of the Scottish  
Charity Regulator  
(OSCR)

OSCR  
2<sup>nd</sup> Floor  
Quadrant House  
Dundee

**Telephone:** 01382 220446

**Website:** [www.oscr.org.uk](http://www.oscr.org.uk)

The Charity Tribunal

Tribunals Hearing Centre  
2nd Floor, Royal Courts of Justice  
Chichester Street  
Belfast  
BT1 3JF

**Telephone:** 0300 200 7812

**Website:** [www.courtsni.gov.uk/en-GB/Tribunals/CharityTribunal](http://www.courtsni.gov.uk/en-GB/Tribunals/CharityTribunal)

The Law Society of  
Northern Ireland

96 Victoria Street  
Belfast  
BT1 3GN

**Telephone:** 028 9023 1614

**Website:** [www.lawsoc-ni.org.uk](http://www.lawsoc-ni.org.uk)

## If you are dissatisfied with our service

The Commission is committed to delivering a quality service at all times. However, we know that sometimes things can go wrong. If you are dissatisfied with the service you have received, we would like to hear from you, and have a procedure that you can use. You will find further information on these processes in our guidance, *Making a complaint about our services*, which is on our website [www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk)



## Data protection

Any information you give us will be held securely and in accordance with the rules on data protection. Your personal details will be treated as private and confidential and safeguarded, and will not be disclosed to anyone not connected to the Charity Commission for Northern Ireland unless you have agreed to its release, or in certain circumstances where:

- we are legally obliged to do so
- it is necessary for the proper discharge of our statutory functions
- it is necessary to disclose this information in compliance with our function as regulator of charities where it is in the public interest to do so.

We will ensure that any disclosure made for this purpose is proportionate, considers your right to privacy and is dealt with fairly and lawfully in accordance with the Data Protection Principles of the Data Protection Act.

The Data Protection Act 1998 regulates the use of "personal data", which is essentially any information, whether kept in computer or paper files, about identifiable individuals. As a "data controller" under the Act, the Charity Commission for Northern Ireland must comply with its requirements.

## Freedom of Information

The Freedom of Information Act 2000 gives members of the public the right to know about and request information that we hold. This includes information received from third parties.

If information is requested under the Freedom of Information Act we will release it, unless there are relevant exemptions. We may choose to consult with you first if this relates to your consultation or application. If you think that information you are providing may be exempt from release if requested, please let us know.

**Further information on our activities is available from:**

**Charity Commission for  
Northern Ireland  
257 Lough Road  
Lurgan  
Craigavon  
BT66 6NQ**

[www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk)



**Email: [admin@charitycommissionni.org.uk](mailto:admin@charitycommissionni.org.uk)**

**Tel: 028 3832 0220**

**Fax: 028 3834 5943**

**TextPhone: 028 3834 7639**

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