

INDEPENDENT EXAMINATIONS

– A SIMPLE GUIDE CONTAINING:

- **WHAT IS AN INDEPENDENT EXAMINATION?**
- **WHO CAN CARRY ONE OUT?**
- **WHAT NEEDS TO BE DONE?**
- **SAMPLE LETTERS, WORK PROGRAMME**



INTRODUCTION

All PCCs below the audit threshold (currently £500,000 income) may choose to have their financial statements independently examined rather than audited. This will be the majority of all PCCs apart from the very largest.

To many people the term 'independent examination' is an unfamiliar term and they will not be aware of the differences between this and an 'audit'.

Although both audit and independent examination represent a formal examination of the financial statements, the level of scrutiny in an independent examination is considerably less than is involved with an audit. However, it is still an exercise that must be properly planned, controlled and recorded. After all investigations have been carried out a final report (in a prescribed format depending on the outcomes of the investigations) is produced which is then attached to the final set of accounts.

If, after reading this guidance, independent examiners, treasurers or PCC members feel that they need further guidance, or more help specifically aimed at their individual parish circumstances, it is recommended that they contact the Finance Team in the first instance at the Diocesan Office, who will be pleased to help.

DISCLAIMER

Whilst every care has been taken in providing this advice, it is given on the distinct understanding that the Rochester Diocesan Society and Board of Finance cannot accept responsibility for it.

This leaflet is for guidance only and is not comprehensive. It is not a statement of law and has no legal force.

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EXTERNAL SCRUTINY OF ACCOUNTS

LEGAL REQUIREMENT

PCCs are organisations with full charitable status and as such have to follow the statutory requirements of the Charity Commission. In addition, additional requirements from the Church authorities as set out in the Church Accounting Regulations (CAR) require that the annual statement of finances of individual parochial church councils must be subjected to external scrutiny either by an independent examiner or a registered auditor.

This guidance booklet deals with the scrutiny of the Financial Statements by an independent examiner. Those parishes with annual income or expenditure in excess of £500,000 will require a full audit by a registered auditor; if this is your parish you may wish to talk further with the Diocesan Treasurer. However, for the vast majority of parishes, the information here is appropriate.

WHO CAN BE AN INDEPENDENT EXAMINER?

The law defines an Independent Examiner as someone who has the requisite ability, and who is independent from the body whose accounts are being examined. Let's explore those two issues a little further.

Requisite ability will depend to a large extent on the size and complexity of the PCC accounts involved, as well as on the individual's experience or qualifications. The type of people acting in this role can include those with basic bookkeeping skills, or those familiar with business or financial matters, provided that they pass the independence test. As the complexities and the size of the PCC's accounts increase, the greater the requirement for the independent examiner to have the appropriate skills to understand and carry out the work. All independent examiners must ensure that they understand their responsibilities under the legislation.

Independence requires that the person involved must have no connection with the PCC, which might appear to be prejudicial to an impartial examination of the accounts. This means for example that the following persons could not be an independent examiner.

- a member of the PCC or any of its sub-committees
- an employee of the PCC or a recipient of benefit from the PCC (other than a fee received as examiner)
- a close relative, business partner or employee of any member of the PCC or any of its Sub-committees

An independent examiner can, however, be a member of the Church with their name on the Church Electoral Roll. If your PCC has difficulties because your person is competent but not independent, one possibility would be to swap examiners with a neighbouring parish. As with all of these guidelines, if you want further advice, contact the Diocesan Treasurer.

APPOINTMENT

For smaller PCCs with a gross income and total expenditure of less than £10,000 and financial statements on the receipts and payments basis, then perhaps, anyone with basic bookkeeping skills may be appropriate.

For PCCs with a gross income up to £250,000 and financial statements on the receipts and payments basis, then perhaps, someone with more business and financial experience, but it need not be a qualified accountant.

For those PCCs with an income in excess of £250,000 accounts will need to be prepared on an accrual basis. It is recommended that the independent examiner is a qualified accountant or has sufficient experience to know the requirements and understand the complexities of the financial records.

The PCC should seek evidence of the examiner's experience, possibly forming a selection panel to interview candidates. If at all possible, the PCC should meet the examiner, to prove they are who they say they are (we have found some independent examiners did not exist)!

The PCC should be confident that the independent examiner is able to meet the tight timescales of the CAR and report to the PCC in accordance with those regulations. Most work will be carried out each February and March.

It would also be good practice that once appointed the independent examiner meets the PCC in person at least once a year.

WHAT IS APPROPRIATE EXPERIENCE?

The PCC should satisfy itself that a prospective examiner has relevant experience of preparing or reviewing similar organizations. The examiner should understand the requirements of not only church requirements but also those of the Charity Commission. The examiner should be able to follow the workings of the church committee structures and be able to understand the requirements of the Church Representation Rules and Church Accounting Regulations. The prospective examiner cannot say that just because they are a *'retired Chartered Accountant'* they know what to do, as the requirements may have changed since they retired; an independent examination is not an audit.

OUTLINE DUTIES OF AN INDEPENDENT EXAMINER

The following gives an outline of the work required as set out by the Charity Commission. Further specific details can be obtained from the guidance booklet *'The Charities Act 1993 and the PCC (3rd edition) a guide to the SORP 2005 revisions'* or from the Charity Commission guidance notes CC31, CC32 and CC63(a).

1. Accounting Thresholds

Check that the PCC has produced the correct form of accounts for the income/expenditure amounts involved and confirm that a full audit is not necessary. Where Receipts & Payment Accounts are prepared the PCC may properly elect to prepare them.

2. Understand the PCC

Take steps to understand the way the PCC works and its organization, accounting systems, activities and nature of its assets, liabilities, incoming resources and application of resources so that it is possible to plan procedures, which are appropriate.

3. Record and Document Work Carried Out

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

4. Compare with Accounting Records

Compare the financial statements of the PCC with the PCC's accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts are in accordance with such accounting records.

5. Review Accounting Records

Review the accounting records maintained in accordance with section 41 of the Charities Act 1993 in order to provide a reasonable basis for the identification of any material failure to maintain such records.

6. Analytical Procedures

Carry out analytical procedures to identify unusual items or disclosures in the financial statements. Where concerns arise from these procedures, the examiner must seek explanations from the PCC. If, after following such procedures, the examiner has reason to believe that in any respect the financial statements may be materially mis-stated then additional procedures, including verification of the asset,

liability, incoming resource or application of resources, must be carried out.

7. Do the Accounting Comply With the Requirements?

Carry out such detailed procedures, as the examiner considers necessary to provide a reasonable basis on which to decide whether or not the financial statements comply with the requirements of the Church Accounting Regulations 2006 as to the form and content of PCC financial statements.

Are the accounts in the correct form for either accruals basis or receipts and payments basis? Has the correct basis been chosen? If the basis has changed from previous years, perhaps due to going over a threshold, have the comparatives been re-stated into the new basis?

8. Accounting Records

Review the accounting records maintained in accordance with section 41 of the Charities Act 1993 in order to provide a reasonable basis for the identification of any material failure to maintain such records. Are the PCC accounting records kept in good order, well organized and able to identify receipts, payments, assets and liabilities at any time?

9. Analytical Procedures

Carry out analytical procedures to identify unusual items or disclosures in the financial statements. If there are concerns, explanations should be sought from the PCC. If after following such procedures, the examiner has reason to believe the accounts are materially mis-stated then additional procedures should be carried out.

10. Form and Content of Financial Statements

Carry out such detailed procedures as the examiner considers necessary to provide a reasonable basis on which to decide whether or not the financial statements comply with the requirements of the CAR 2006 as to the form and content of the PCC financial statements.

For accounts on the accruals basis the Regulations lay down the requirements as to form and content, and the notes that are required. For accounts on the receipts and payment basis the Regulations do not specify the form, and, although there is guidance as to best practice, there is no specific requirement to follow that best practice.

11. Accounting Policies, Estimates and Judgements

When financial statements have been prepared on an accrual basis, review the accounting policies adopted and consider their conformity with fundamental accounting concepts, consistency of application and

their appropriateness to the activities of the PCC. The examiner must also consider and review any significant estimate or judgement that has been made in preparing the financial statements.

Accruals basis

The policies adopted and any estimates or judgements made should be considered. The accounts should be reviewed in accordance with the going concern assumption and the accruals concept and that policies agree with these.

Addition matters that should be considered might include

- Allocation of monies to or from restricted funds
- Inclusion of figures from subsidiary organizations and fellowship groups
- Transfers to or from designated funds
- Valuations of gifts in kind
- Valuation of investments
- Estimates from transactions not recorded in accounting records (eg Gift Aid reclaims, rents not received)
- Allocation of costs between expenditure headings

Receipts and Payments basis

The only concept required is that of consistency. The receipts and payments account is a factual record of money received and expended; the Statement of Assets and Liabilities is a schedule of information.

12. Events Subsequent to the Year-End

When accruals accounts are prepared, enquire of the PCC as to any material events subsequent to the year-end that may require adjustment or disclosure in the financial statements.

Accruals basis

Any event after year end may have a material effect on the financial affairs as shown. These events should therefore be discussed by the PCC and might include:

- Whether any income anticipated and accrued might be irrecoverable
- Discovery of an error or fraud
- Crystallization of a liability
- Repayment of a grant or donation
- Revaluation of a property indicating a further reduction in value
- Other significant event impacting on the working of the parish (eg fire or flood damage)

Receipts and Payments basis

There are no specific requirements to consider events post year end unless other examination procedures give rise to concerns that need to be addressed.

13. PCC Annual Report

Compare the financial statements to any financial references in the PCCs annual report, identify any major inconsistencies and consider the significance such matters will have on a proper and accurate understanding of the PCCs financial statements.

14. Examiner's Report

Review and assess all conclusions drawn from the evidence obtained from the examination and consider the implications on the report to be made under the Church Regulations. If the examiner has cause to make a positive statement on any matter arising from the provisions of the Church Regulations, or to make a statement on any matter arising from the provisions of the Regulations, then the examiner must ensure so far as practicable that the report so made gives a clear explanation of the matter and of its financial effects on the financial statements presented.

There is a long list of items that might require such a statement to be made, but include such items as:

- have the records been kept in accordance with the requirements
- do the financial statements agree with the accounting records
- do the records agree with the annual report
- has anything happened that is not in accordance with the PCC powers measure or any special trusts
- has any information been withheld or failed to be provided to carry out the examination

15. Reports to the Charity Commission

Inform the Charity Commissioners in writing if, whilst acting in the capacity of the examiner of a PCC, information or evidence is obtained which gives the examiner reasonable cause to believe that any one or more of the members of the PCC has been responsible for deliberate or reckless misconduct in the administration of the PCC.

If there are any concerns, s/he should be clear what the problem is. First s/he should clarify matters with the treasurer and/or other parish officers. If it is technical, s/he could discuss with the finance team in the Diocesan Office.

If after these, s/he is still concerned there are several courses of action available:

- Report to the PCC separately in the form of a 'management letter'. Usually good if there are small matters of concern or some perceived weaknesses in procedures that should be addressed by the PCC.
- The examiner may make a qualified report attached to the financial statements. This might be where this is a question of emphasis, for example if there is a possible legal exposure from a court case yet to be resolved. It would be wise to seek advice from diocesan staff first before issuing such a report.
- If there are more serious concerns, such as minor fraud or inappropriate use of PCC funds
- At the most serious level the independent examiner should report to the Charity Commission under the Charities Act. For example, when there has been serious loss or assets are in danger from, say, inappropriate investment.

Regulation 7(5) of the Charities (Accounts and Reports) Regulations 2005. If the examiner believes that one or more members of the PCC have been deliberately or reckless in the administration of the PCC a report should go to the Charity Commission. Of course it is hoped that discussions with the PCC, PCC officers, or diocesan staff, including the archdeacon should resolve this and that this situation shouldn't arise.

Further details are shown in the guidance booklet *'The Charities Act 1993 and the PCC (3rd Edition)'*, and also the Charity Commission booklet CC63 *'Independent Examination of Charities'*.

www.parishresources.co.uk

www.charity-commission.gov.uk

EXAMPLE PLANNING CHECKLIST AND WORK PROGRAMME

Planning Checklist

Is there any reason not to continue with this examination?

Am I independent?	Yes	No
Do I have the requisite ability and experience?	Yes	No
Has my appointment been approved by the PCC and made at the APCM?	Yes	No
Has the PCC approved my letter of engagement?	Yes	No

Do the accounts or accounting records show gross income and total expenditure at levels which require an Audit? Yes No

Are there any specific requirements for an Audit to be carried out, e.g. trust or grant conditions? Yes No

I have (obtained) / (confirmed) background information on the PCC, how it is organised, the extent of its activities, the existence of parochial organisations and trusts, and the nature of the PCC's income, expenditure, assets, liabilities and funds.

I have recorded these on a separate sheet, along with a brief description of the accounting records maintained by the PCC.

Example work programme

If any of the answers to these questions is 'no', full details of the problem encountered and how it was resolved should be recorded on a separate sheet.

FINANCIAL STATEMENTS

1. *Do figures in the financial statements agree with the PCC's main accounting records (e.g. the cash book)?*
2. *Have you been able to show the link between the accounting records and the financial statements by cross referencing, and have you attached your analysis to this report?*
3. *Is the PCC annual report consistent with the accounts and other information gathered during the course of this investigation?*
4. *Do you consider that the PCC has adequately disclosed the transactions or interests that PCC members may have with it?*

ACCOUNTING RECORDS

1. *Have you selected a sample of entries from the main accounting records and traced them back to any supporting prime books (e.g. cash book, petty cash book, planned giving register)?*
2. *Have you selected a different sample of entries from any of these prime books and traced them to the main accounting records?*
3. *Have you recorded on a separate working paper your full workings whilst conducting the above two traces?*
4. *Have you checked the arithmetical accuracy of some of the accounting books and records, and written down which ones you checked?*

REVIEW OF ACCOUNTS

1. *Have you reviewed the figures shown in the accounts in the light of the general knowledge you have about the PCC, its activities, its budgets and previous performance, and if necessary, have you obtained from the PCC explanations about any unexpected variations or inconsistencies?*
2. *Are you satisfied that there is nothing that has emerged during this examination which suggests that the financial statements are materially mis-stated?*
3. *Have you reviewed minutes of PCC meetings and other relevant committee meetings to ensure that the accounts and the PCC report include all major decisions, changes and events in the life of the church?*
4. *Are you satisfied that the PCC has only financed activities in accordance with its objects and powers?*
5. *Have you examined the end of year bank reconciliation to ensure there are no unusual or unexpected items?*

TRANSACTION TESTING

1. *Have you selected a sample of receipts and payments from the main accounting records and checked the details with supporting invoices or vouchers to ensure the transactions are valid?*

REPORTING

1. *Have you prepared a report for the PCC which is in accordance with Church Accounting Regulation 25?*

2. *Are you satisfied that you have encountered no matters of a legal, accounting or similar nature which represent deliberate or reckless misconduct by the PCC, and which should, therefore, be reported in writing to the Charity Commissioners with a copy to the Archdeacon?*

The following is a suitable checklist that can be used in carrying out the work programme. This can be copied as necessary.

Independent Examination Work Programme

Any Church, Newtown PCC - Financial year 200Y

		Completed satisfactorily	
		Yes	No
Financial statements			
1	Agree figures in the financial statements to the PCC's main accounting records (e.g. Cash book).	<input type="checkbox"/>	<input type="checkbox"/>
2	Cross reference and attach to this programme a referenced set of financial statements and any supporting analysis necessary to show the link between the accounting records and the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>
3	Read the PCC annual report and ensure it is consistent with both the financial statements and any other information gained during the course of the examination.	<input type="checkbox"/>	<input type="checkbox"/>
4	Consider if the PCC has adequately disclosed the transactions or interests that PCC members may have with it.	<input type="checkbox"/>	<input type="checkbox"/>
Accounting records			
5	Select a sample of entries from the main accounting records and trace them back to any supporting prime books that exist (e.g.. Cash book, petty cash book, planned giving register).	<input type="checkbox"/>	<input type="checkbox"/>
6	Select a sample of entries from any of these prime books and trace them to the main accounting records.	<input type="checkbox"/>	<input type="checkbox"/>

(The items selected under 5 and 6 above should be recorded on a separate working paper and the prime record to which they were checked or from which they were selected should be noted. These tests mirror each other but it is important that different items are selected for each test)

- 7 Test check the arithmetical accuracy of some of the accounting books and records.

Review of financial statements

- 8 Consider the PCC's incoming resources, resources expended, assets and liabilities as shown in the financial statements in the light of the general knowledge obtained about the PCC and its activities as well as budgets for the year and corresponding figures for the previous year. Where there are unexpected fluctuations or inconsistencies, obtain explanations from the PCC.

- 9 Have any key issues been identified which, whilst falling outside the scope of an independent examination, suggest that the financial statements are materially misstated?

If 'yes' include details on a separate sheet and state how they have been resolved.

- 10 Review the minutes of PCC and other relevant committee meetings:

- Identify major events, plans or decisions and changes in PCC officers and members and ensure they have been properly reflected in the accounting records, reports and financial statements;

- determine if the PCC has financed activities outside its objects and powers as outlined in the Guidance.

- 11 Examine the year-end bank reconciliation (and, for more complex PCCs, any other control accounts) to ensure they do not include any unexpected or unusual items.

Transaction testing

- 12 Select a sample of receipts and payments from the main accountancy records and cross check the details to supporting invoices, vouchers or other similar documentation to ensure that the transactions are valid under the powers of the PCC.

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Note which transactions were examined on a separate sheet.

Reporting

- 13 Prepare a report to the PCC which is in accordance with CAR 2006.

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- 14 Matters identified during the course of the work which suggest legal, accounting or other similar problems should be carefully considered. If they represent significant instances of deliberate or reckless misconduct in the administration of the PCC, then a written report should be made to the Charity Commission and a copy provided to the archdeacon.

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Additional work for financial statements prepared on the accruals basis

- 15 Review the accounting policies adopted by the PCC and ensure they are either the model policies or are consistent with the general Guidance.

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- 16 Enquire if there have been any events since the year-end which should be disclosed in the financial statements or which indicate that amounts included in the financial statements should be amended.

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- 17 Ensure any material contingencies or commitments identified have been properly shown in the financial statements.

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- 18 Ensure the financial statements comply with the accounting and disclosure requirements of the CAR 2006.

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Sample letter of engagement to be issued by an Independent Examiner

[note the phrases in square brackets should be omitted when the examination is on the receipts and payments basis]

Dear members of the PCC,

ENGAGEMENT AS YOUR INDEPENDENT EXAMINER

The purpose of this letter is to set out in confirmation of our recent discussions the basis on which I am prepared to act as Independent Examiner to prepare a report in respect of the PCC's financial statements for the year ending 31st December 2---, and for future years until further notice, in accordance with section 43 of the Charities Act 1993 ('the Act') and the Church Accounting Regulations 2006 ('the Regulations').

RESPONSIBILITY OF MEMBERS OF THE PCC

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

You are responsible for determining whether, in respect of the year (and the preceding two years), the PCC meets the conditions for exemption from an audit of the accounts set out in section 43(1) of the Act and the Regulation, and for providing me with information and explanations required for my examination.

RESPONSIBILITIES OF THE INDEPENDENT EXAMINER

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

- accounting records have *not* been properly kept in accordance with section 41 of the Act: or
- the accounts do not accord with the accounting records or do not comply with the Regulations [other than in respect of the requirement for a true and fair view].

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

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

SCOPE OF THE INDEPENDENT EXAMINER'S WORK

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

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

My work cannot be relied upon to identify the occasional omission or insignificant error, nor to disclose breaches of trust or statute, neglect or fraud which may have taken place and against which it is the responsibility of the PCC to guard against.

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

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

FEES

I am prepared to waive my fee for this examination.

CONFIRMATION

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

Yours faithfully,

An example report to a PCC by an Independent Examiner

Independent Examiner's report to the PCC of

for the year ended 31st December 2---.

This report on the accounts of the PCC for the year ended 31st December 2---, which are set out on pages --- and ---, is in respect of an examination carried out in accordance with the Church Accounting Regulations 2006 ('the Regulations') and s.43 of the Charities Act 1993 ('the Act').

Respective responsibilities of the PCC and the examiner

As members of the PCC you are responsible for the preparation of the accounts; you consider that the audit requirement of the Regulations and section 43(2) of the Act do not apply. It is my responsibility to issue this report on those accounts in accordance with the terms of the Regulations.

Basis of this report

My examination was carried out in accordance with the General Directions given by the Charity Commission under section 43(7)(b) of the Act and to be found in the *Church Guidance*, 2006 edition, issued by the Finance Division of the Archbishop's Council. That examination includes a review of the accounting records kept by the PCC and a comparison of the accounts with those records. It also includes considering 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 I do not express an audit opinion on the view given by the accounts

Independent examiner's statement

*** (see below)

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 41 of the Act;
 - and

- to prepare financial statements, which accord with the accounting records and comply with the requirements of the Act and the 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.

(Signed)

Full name, address and full qualifications

Date

***** OR (in the event of a disclosure problem)**

The Incumbent and PCC refused to provide information on a separately administered charity, the Jeremiah Trust, comprising a substantial endowment benefiting the PCC from time to time, and so it could not be ascertained to my satisfaction that the Trust should not be accounted for by the PCC. This matter gives me reasonable cause to believe that in this respect the accounts do not comply with the accounting requirements of the Act.

In connection with my examination, no other matter except that referred to in the above has come to my attention.....