

The Scope of These Guidance Leaflets

The Trustees of a charity have the ultimate collective responsibility for the proper governance of their charity in compliance with the Charity Act. Charity governance is the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of a charity.

<https://knowhow.ncvo.org.uk/governance/getting-started-in-governance/getting-started-in-governance-1>

For more detailed information and downloadable document & diagnostic tool see the Charity Governance Code website which has sections tailored for smaller, as well as larger, charities:

<https://www.charitygovernancecode.org/en>

This leaflet is one of a series produced by Small Charity Support to give an overview of the things that will be helpful to consider when your Trustees are reviewing your charity's governance and the way it operates.

They are **NOT** a full and comprehensive guide to Charity Law and all the associated regulations. They are just an overview of the main points from the perspective of "[the person on the Clapham Omnibus](#)".



Please read the Disclaimer on the last page of this leaflet.



If you need qualified professional advice you should look elsewhere, eg: the "Other Resources" page of the Small Charity Support website: www.smallcharitysupport.uk/index.php/other-resources

The topics covered in this series are:

Responsibilities & Roles of ALL Trustees

Typical Responsibilities & Roles of the Chair

Typical Responsibilities & Roles of the Treasurer

Payments to Trustees

Accounts ALL Charities MUST Keep

More information on managing your charities finances can be found on the website page "Charity Accounting Made Easy" [HERE](#)

Minutes: Recording Events & Decisions

Policies & Procedures

Some example policies & procedures which you might be able to adapt for your charity's own use can be found on the website page "Example Policies" [HERE](#)

Outputs & Outcomes

Demonstrating the charity's delivery of value-for-money charitable benefits

Choosing an Independent Examiner or Financial Advisor {This Leaflet}

The Trustees' Annual Report & Financial Statements

Your comments and suggestions (to comments@smallcharitysupport.uk) on how these leaflets could be improved to make them clearer and more useful would be much appreciated.

Links to other sources of information:

In this leaflet: where references to other reports or reviews are highlighted [blue-underlined](#), clicking on those references will take you on-line to the document being referred to.

Choosing an Independent Examiner or Financial Advisor

Arranging for your charity's accounts to be subject to external scrutiny, either an audit or independent examination, is an important part of providing assurance to the trustees and others with an interest in the charity's activities about the content and accuracy of those accounts.

There are, undoubtedly, many good, knowledgeable, competent, caring professionals – both accountancy professionals and others with relevant expertise – who are contributing effectively and generously to the financial management of the charity sector.

But, over the last decade, in responding to requests for support Small Charity Support has encountered more “financial advisors” than it would wish ranging from the benignly inept, through the negligently incompetent to the criminally fraudulent.

The Evidence

But don't take Small Charity Support's word for it: those experiences are, evidently, not atypical. The Charity Commission's own [report](#) on its benchmark standards for charity accounts says:

“Trustees and the reader or user of ... charity accounts will expect that the external scrutiny was done properly. However, the evidence from our thematic research on charity reports and accounts has shown that too many independent examiners and auditors appear to lack the necessary understanding of the external scrutiny framework for charities and of their reporting duties.”

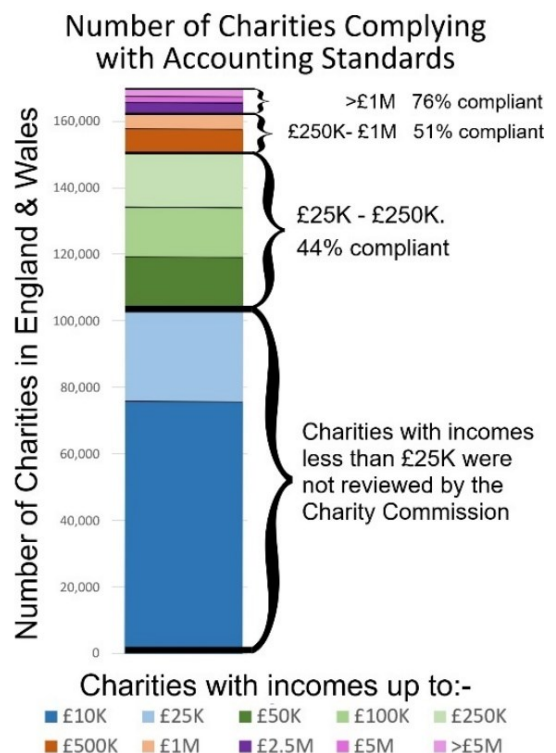
The Charity Commission's last review of charity accounts ([August 2019](#)) showed that almost half of charity accounts for the year 2017¹ had fail to meet its benchmark standards. And that was so even when many of them had been prepared and/or Independently Examined by professionals.

The performance was even worse in the sample of 100 small charities (incomes £25,000- £250,000) where more than half (56%) of the accounts failed to meet the Commission's benchmark standard.

Such a large percentage of non-compliance cannot be “excused away” by the small size of the sample. The margin of error on a sample of 100 taken from a population of ca.46,000 is approx.10%. So even if the sample of small charities in that particular review was maximally biased toward those which were non-compliant with the standard, 56% - 10% = 46% almost half of the accounts of charities in the £25,000-£250,000 range would probably still have been found to be non-compliant.

Furthermore, the £25,000-£250,000 annual income bracket only includes about 27% of all charities in England & Wales.

A further 61% (ca.104,000) of charities fall within the £0 – £25,000 income bracket. It is not unreasonable to assume that non-compliance in the accounts of that additional group of charities would be at least similar. And that, in turn would imply that the accounts of at



¹ Note: The Charity Commission appears to have stopped undertaking annual reviews of charity accounts since 2019 <https://www.gov.uk/government/collections/accounts-monitoring-charity-commission>

least 46% of the ca.150,000 smallest charities in England & Wales (ie: >69,000 charities) would not be compliant Charity Commission's benchmark standards for their accounts.

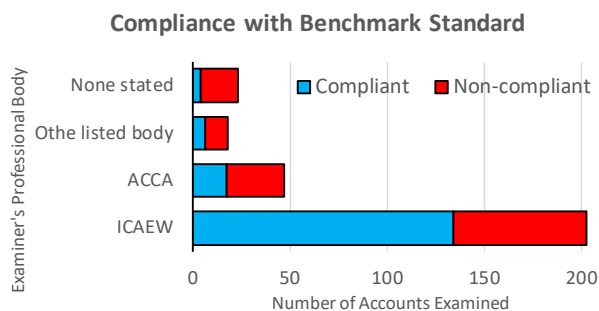
Where does one look for an explanation of such disturbing figures ?!

- ☹ Incompetent trustees ?
- ☹ Incompetent financial advisors and/or Independent Examiners ?
- ☹ Accounting standard & procedures which are not fit-for-purpose ?
- ☹ A regulatory body which is powerless, or ineffective, or both, to ensure that its benchmark standards are properly implemented ?

Given the onerous nature of Accruals financial reporting – and the inappropriateness of Receipts & Payments financial reporting for small charities – it would hardly be surprising if failure to comply with the Charity Commission's benchmark standards was due to non-accountant trustees finding themselves unable to cope with them.

But the Charity Commission's review also found that of the 296 accounts examined 268 (91%) had been independently examined (and, in some case, also prepared) by professional accountants. And of those 111 (41%) did not meet the benchmark standards.

More specifically the review commented: “... the trustees of 70 of the 92 small charities (incomes less than £250,000) in our sample that opted for independent examination appointed qualified examiners. The qualified examiners performed significantly better than the unqualified examiners, with 44% of the accounts that they reviewed meeting the benchmark, compared with only 18% for the unqualified examiners.”



With such a large percentage of accounts examined by professional accountants failing to meet the Commission's benchmark standards it is hard to avoid the conclusions that it is the fitness for purpose of the accounting procedures rather than the abilities of charity trustees which is the primary problem.

Accountancy Professional Qualifications

More often than Small Charity Support would like, it has been approached for help where a charity's trustees have gone to a professional accountant for help and advice with their accounts (as advised by the Charity Commission) only to find that the professional accountant is the cause of the “muddle” not the solution.

Re-word that last sentence of the Charity Commission's comment (above) as:

“The qualified examiners performed significantly better than the unqualified examiners, with only 56% of the accounts that they reviewed failing to meet the benchmark, compared with 82% for the unqualified examiners.”

.....and it is easy to see how an adroit bit of “editorial spin” turned what, in reality, should have been a significant criticism into an implied compliment, potentially encouraging a mis-placed trust in the competence of “qualified” independent examiners.

It is not widely recognised that the standard training and accrediting requirements to be recognised as a professional chartered accountant do NOT include a mandatory module on charity accounting:

<https://careers.icaew.com/how-to-become-a-chartered-accountant/aca-modules>

<https://kaplan.co.uk/courses/aca-icaew>

ie: just because a person is a qualified business accountant DOESN'T automatically mean that they are also qualified in charity accounting rules and procedures.”

That distinction between “business” financial reporting and “charitable” financial reporting is exemplified in a recent (25 May 2021) letter from the Charity Commission to the Financial Reporting Council which said:

The focus of accounting standards is very much on the interests of the providers of risk capital to for-profit businesses. Charities are established for the public benefit and not as owner managed for-profit businesses and, although welcome, the PBE {Public Benefit Entities} paragraphs are proving insufficient in addressing the reporting needs of the users or charity accounts and avoiding for-profit orientated disclosures detracting from the quality and character of public benefit accounting and reporting.

Which is a rather more “politically correct” way of saying “[the current charity financial reporting standards are Not-Fit-For-Purpose](#)”.

So far as Small Charity Support has been able to discover, there are only two formal professional “qualifications” (*ie*: validated by formal assessment) in charity accounting:

- 1: the ACIE Associate (ACIE) and Fellow (FCIE) memberships;
- 2: the ICAEW Diploma in Charity Accounting (DChA).

But it seems that the DChA is primarily targeted at accountants looking for a career within the charity sector itself. Consequently it can be difficult to find DChA qualified accountants offering an “on request” service to independently examine and/or prepare charity accounts in the same way as local “high street” accountants can be engaged to prepare small business/personal accounts.

Charity Commission appears to recognise that, because its guidance says:

The starting point for all independent examiners is an understanding of their responsibilities, as explained in [Independent examination of charity accounts: examiners \(CC32\)](#). All examiners must also understand the key governance and reporting requirements that are specific to charities. These include the responsibilities of trustees and the requirements to produce a trustees’ annual report and to account for the different types of charitable funds.

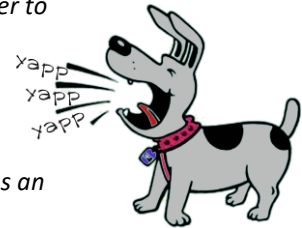
...and goes on to say:

Whatever their skills and professional qualifications, new examiners who are not familiar with the charity sector will need to gain this background knowledge before starting their examination.

But nowhere does the Charity Commission say how a potential independent examiner’s “background knowledge” of charity sector financial reporting requirements is to be validated in order that they can claim to be “qualified” (and, therefore able to charge a “professional” fee) to undertake the independent examination of charity accounts. Instead, Charity Commission guidance, [CC31 Independent examination of charity accounts: guidance for trustees](#), merely suggests:

The trustees may find it helpful to draw up a set of questions to ask their proposed examiner to help them check that the person has the skills and experience needed. You should ask:

- all examiners, to confirm that they have read and understood the Commission’s Directions and guidance
- professional examiners, to provide proof of membership of one of the professional bodies listed in the appendix and that they meet that body’s requirements for acting as an independent examiner.



Getting an answer to the first question is certainly a good idea – which, in practice, means asking a potential independent examiner to confirm that they have read and understood the Charity Commission’s **83-page** (!) [“Independent Examination of Charity Accounts: Examiners” \(CC32\)](#) guidance detailing the “13 Directions” for the examination of charity accounts. But that’s quite a “tall order” for finding a supporter who is willing to do the examination for a small charity which is hoping to avoid having to pay a professional accountant’s independent examination fee (typically £400-£1000).

Which is why a lot of small charity trustees find themselves – reluctantly – having to turn to a local accountant to undertake the independent examination (and, quite often, the preparation too) of their charity’s accounts, trusting that they are actually competent to do so.

Getting an answer to the first part of the second question – proof of membership of an approved professional body – is straightforward enough. But what “*meeting that body’s requirements for acting as an independent examiner*” actually means is far from clear.

Searching the internet for the “*requirements {of professional bodies} for acting as an independent examiner*” finds very little, if anything, which would be helpful to non-accountant trustees looking for specific guidance on whether the person they are seeking to engage actually has objectively verified relevant expertise rather than just their own subjective opinion of their abilities.

As at the date of this report, specific enquiries direct to the two largest accountancy professional bodies (ICAEW & ACCA) has not resulted in any meaningful responses on how they provide “proof” to members of the public that their members “*...meet {their} requirements for acting as an independent examiner*”.

In reality, the Charity Commission’s suggestions are “all bark and no bite”.

The Charity Commission’s own reviews provide clear evidence that the current system of accrediting professional accountants to undertake the independent examination of charity accounts is inadequate.

But its August 2019 review concludes:

- ☹️ *Whilst the trustees are responsible for their charity's accounts, our findings also raise concerns about the work done by the auditors and examiners who scrutinised these accounts;*
- ☹️ *However, our review has highlighted that the trustees of a significant number of charities have appointed auditors or examiners whose work does not meet our external scrutiny benchmark;*
- ☹️ *We have updated our guidance about independent examination to help trustees fulfil their legal duty to appoint 'an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts.'*

The trustees of small charities could be forgiven for thinking that, should their accounts fail to meet the Charity Commission's benchmark standards, it would be more because of their incompetence in choosing an competent independent examiner than the incompetence of the independent examiner whose "competence" they were compelled to rely on.

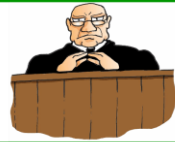
Small Charity Support takes the view that it is disingenuous, to the point of fraud, for accountants (chartered or otherwise) to present themselves as "qualified" to prepare and/or independently examine a charity's account – and, therefore, to charge a "professional" fee for their services – if their training and accreditation did not include a formally assessed module on charity accounting procedures.

Small Charity Support therefore believes that accountancy professional bodies should be instructing their members **NOT** to undertake professional (*ie*: fee-paying) engagements for the preparation and/or independent examination of charity accounts unless they have a validated professional qualification specifically in charity accounting.

ie: a qualification in standard commercial accounting which did not include a charity-specific module is **NOT** sufficient.

In Summary

- 😊 **DO** at least download and look at the Charity Commission guidance:
[CC31: Independent examination of charity accounts: guidance for trustees;](#)
[CC32: Independent Examination of Charity Accounts: Examiners;](#)
You probably won't have the time (and, even less, the inclination) to read them word-by-word cover-to-cover (particularly CC32).
But you should at least have got the "flavour" of what they say should it come to having to discuss them with your financial advisor and/or independent examiner.
- ☹️ **DON'T** assume that all professional accountants are "automatically" qualified and experienced in charity accounting rules & procedures when seeking external profession advice on preparing your charity's accounts and/or getting them Independently Examined in accordance with Charity Commission requirements;
- ☹️ **DON'T** assume that professional accountants are qualified and experienced in charity accounting just because their website or other publicity materials claim that they provide financial services to charities.
- 😊 **DO** make it explicitly clear that you are seeking to engage a person with either (or both) an ACIE/FCIE or a DChA qualification;
- 😊 **DO** at least take a look at the [ACIE](#) website when seeking a local financial advisor and/or independent examiner for your charity's annual reports & accounts.



While it is Small Charity Support's intention to provide you with the best possible support and information as we are able, it is important that you read and give due consideration to the following notices.



The information contained in this leaflet is provided in summary form and is made available for general information purposes only. It has not been prepared with your specific needs in mind and is not advice of any kind (whether legal, financial, or otherwise).

Please take the time to check the information in this leaflet is suited to your specific circumstances and if you are making any important decisions, such as on financial, legal or tax matters, you should consult a qualified professional adviser who can provide specific advice based on your position.

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