Guidelines for an Independent Examiner

The Examiner's Report

Following the examination, the independent examiner is required to produce a report. The specific reporting duties of the independent examiner are detailed below.

In the report, 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:

- proper accounting records have not been kept;
- the accounts do not accord with such records; or
- the accounts fail to comply with relevant Regulations.

A statement is also required as to whether or not any matter has been identified, in connection with the examination, to which attention should be drawn to enable a proper understanding of the accounts to be reached.

The report should also include details of the following matters where they have become apparent:

- material expenditure or action contrary to the objects of the Trust;
- failure to provide information and explanations to which the examiner is entitled; or
- evidence that accounts prepared on an accruals basis are materially inconsistent with the trustees' annual report.

The examiner's report must be signed by the examiner in his or her own name. Whilst the name of a partnership or company may be added, the appointment of an examiner relates to the individual rather than the partnership or company.

Directions to Examiners

The FCA provides the procedural framework to define how the reporting duties of the examiner must be met. This is based on, but has no connection to, the approach given by the Charities Commission.

The Charities Commission has no jurisdiction over and is completely independent from Community Benefit Societies which are the subject of these Directions.

There are twelve specific Directions that the examiner must address in carrying out an examination.

Set out below are:

- an explanation of the objective of each of the twelve Directions; and
- guidance on operational procedures and methods which will help examiners to meet the requirements of the Directions.

The Directions (which must be followed) are reproduced in bold print at the head of each page to which they refer with explanatory guidance set out in light print below.

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.

The 12 Directives for Independent Examiners - Summary & Checklist

Action required by Independent Examiner:

1. Examiner Check that Independent Examination is a relevant option by
   - Ensuring members have approved a suitable resolution
   - The income falls beneath the relevant threshold

2. Understand the Trust's constitution, objectives and activities so that the Examination can be designed to be appropriate to the circumstances of the Trust.

3. Maintain a record of examination and procedures, particularly any matters which are relevant to support conclusions reached or any statement within the report.

4. Ensure the Trust Accounts can be tracked to the underlying accounting records
5. Review the accounting records in order to assess whether there has been any material failure to maintain such records.

6. Analyse and review the accounts for any unusual or exceptional items. Obtain explanations for any such and assess the validity of such explanations.

7. Check that the contents of the Accounts comply with the disclosure requirements for CBS's

8. Check that accounting policies adopted are appropriate to the Trust and review any significant estimate or judgement that has been applied in preparing the accounts
9. Enquire of any material matters subsequent to the year-end that may require disclosure in the Accounts.

10. Review the Trust Board Members Report to ensure it is consistent with the information in the Accounts.

11. In preparing the Examiners Report the Examiner should consider any matters that require to be reported, the implication for the Accounts and should ensure a clear explanation of the matter and its financial effects are set out in the report.

12. In extreme cases where the Examiner has reasonable cause to believe that one or more of the Trust Board Members has been responsible for reckless or deliberate misconduct, the Examiner should inform, in writing, the Chair of Supporters Direct, setting out the circumstances that gave rise to this belief.

Direction 1

Examination and accounting thresholds

Carry out such specific procedures as are considered necessary to provide a reasonable basis on which to conclude that an examination is required and that the Trust Board may properly elect to prepare accounts under this sub-section.

Guidance

Trusts may elect for independent examination if so authorised by Members.

For the election to be valid, the Trust must be within the relevant income bands specified in the relevant resolution to the AGM.

The examiner should therefore ascertain:

- the Trust's gross income for the financial year concerned;
- whether the Trust members passed a valid resolution at the previous year's AGM to allow for exemption from full audit; and
- whether any other condition or commitments demand an audit.

Carrying out these procedures at an early stage should prevent the work of the examiner being duplicated by professional audit which would add to the expense for the Trust.

In cases where the Trust's gross recorded income or total expenditure for the year of the accounts, exceeds the threshold level of £1,000,000 (below which an independent examination can be carried out), the accounts should be referred back to the Trust Board for an auditor to be appointed.

The examiner should consider at an early stage of the examination the levels of income and expenditure disclosed by the accounting records and by the trial balance. The examiner does, however, need to remain alert to any additional information which may come to attention during the course of the examination which indicates that an income or expenditure threshold has been crossed.

The level of income should be considered on the accruals basis, taking account any income earned but not yet received by the Trust. The examiner should specifically enquire about any such unrecorded income.

Direction 2

Understanding the Trust

Obtain an understanding of the Trust'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 Trust.

Guidance

For a proper examination to be carried out it is important for the examiner to have an understanding of the operations, structure and objectives of the Trust.

This understanding will help the examiner to plan appropriate examination procedures.

The steps taken by an examiner would normally include:

- consideration of the constitution (or Model Rules) of the Trust, paying particular attention to the Trust's objects, powers and obligations;
- discussions with Trust Board members and, where appropriate, the Trust's staff to ascertain the structure, methods and means by which the Trust seeks to achieve its objects;
- discussions with Trust Board members and, where appropriate, the Trust's staff about the affairs, and activities of the Trust in order to gain an insight into any special circumstances and problems affecting the Trust;
- reviewing the minutes of Trust meetings to ascertain details of major events, plans, decisions and changes in Trust Board members; and
- obtaining details of accounting records maintained and methods of recording financial transactions.

Direction 3

Documentation

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

Guidance

The working papers should provide details of the work undertaken and support any conclusions reached and record any judgmental matters which may arise.

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 normally include:

- a letter of engagement from the independent examiner to the Trust Board Members, together with evidence that this has been accepted by the Trust Board Members (for example a return copy of the letter signed by a representative of the Trust Board Members);
- relevant information extracted or obtained from the Trust Constitution, Trust Board meeting minutes and a record of discussions with the Trust Board Members and the Trust's staff;
- details of procedures carried out during the examination, with conclusions reached and any areas of concern identified;
- notes as to how any areas of concern have been resolved together with details of any verification procedures used;
- schedules showing the breakdown of accounting items that have been aggregated for accounts disclosure purposes;
- copies of any trial balance, accounts and Trust annual report; and
- copies of any written assurances obtained from the Trust Board Members confirming amounts included within the accounts.

Direction 4

Comparison with Accounting Records

Compare the accounts of the Trust with the Trust'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.

Guidance

Compare the accounts with the underlying accounting records. All balances in the accounts will need to be compared with the trial balance or any nominal ledger maintained.

A direct comparison with the cash records of the Trust should be carried out if no nominal ledger is kept.

Test checks will also be necessary of the posting of entries from books of prime entry (e.g. petty cash book, any sales or purchase ledgers or day books) to any nominal ledger and/or to the trial balance itself. Similar checks are also necessary even where accounting records are maintained on computer-based systems.

A review of bank reconciliations, payroll summaries and control accounts prepared will provide a useful check as to the completeness of posting from books of prime entry.

There is no requirement for accounting entries to be checked against source documents (e.g. invoices, supplier statements, purchase orders etc) unless concerns arise which cannot be resolved by seeking explanations.

Whilst the Trust Board Members are responsible for the preparation of accounts, the examiner may also, on occasions, prepare accounts on behalf of the Trust Board. The preparation of accounts will not generally impinge on independence provided the examiner ensures that the requirements of the Directions are met and avoids involvement in the management or administration of the Trust.

Where reliance is placed on work undertaken in the course of preparation of the accounts (e.g. posting of accounting entries) the examiner should consider whether separate procedures as set out above are also necessary to ensure this Direction has been met (i.e. to check the accuracy of the examiners own preparation work).

Direction 5

Accounting records

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

Guidance

The Trust Board is responsible for maintaining the accounting records.

The examiner is required to review the accounting records with a view to identifying any material failure to maintain such records.

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

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.

The accounting records should:

- be up to date;
- be readily available; and

- provide the basic information from which the financial position can be ascertained, not only at the year end, but also on any selected date.

The accounting records should contain:

- details of all money received and expended, the date, and the nature of the receipt or expenditure; and
- details of assets and liabilities.

Smaller Trusts may not maintain formal ledgers to record assets and liabilities, and in such instances the requirements can generally be met by maintaining files for unpaid invoices and amounts receivable. A record of fixed assets is generally necessary to meet the accounting requirements.

Direction 6

Analytical procedures

Carry out analytical procedures to identify unusual items or disclosures in the accounts.

Where concerns arise from these procedures, the examiner must seek explanation from the Trust Board Members. If, after following such procedures, the examiner has reason to believe that in any respect the accounts may be materially misstated then additional procedures, including verification of the asset, liability, incoming resource or application, must be carried out.

Guidance

It is important that the examiner looks carefully at the final accounts to see if they reveal any unusual items, unexpected fluctuations, or inconsistencies with other financial information. This procedure is called 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 and the application of resources are consistent with known fund-raising sources, payroll details, activities, and the objectives of the Trust - it is important to have obtained a proper understanding of the nature of the Trust's activities and affairs for this aspect of the review to be successful;

- considering whether the liabilities and current assets disclosed are consistent with the scale and type of activities undertaken;
- considering whether fixed assets investments are producing income consistent with the nature of assets held; and
- considering whether the tangible fixed assets are consistent with the scale and type of activities undertaken by the Trust.
- Where analytical review procedures identify any unusual items, unexpected fluctuation or inconsistency then explanations should be sought from the Trust Board Members or, where appropriate, the Trust's staff.

If the explanations provided by the Trust Board Members or, where appropriate, the Trust's staff do not satisfy the examiner, then additional procedures will be necessary.

Such procedures may include:

- physical inspection of a tangible fixed asset;
- verification of title to an asset;
- inspection of third party documentary evidence (e.g. 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; and
- checking of a post year end receipt or payment to confirm recoverability of a debt or the amount of a liability.

A comprehensive list of analytical procedures and of additional procedures where concerns arise is beyond the scope of this publication and will to an extent be an area in which the examiner will need to exercise judgments and to draw on experience.

Direction 7

Form and content of accounts

Carry out such detailed procedures as the examiner considers necessary to provide a reasonable basis on which to decide whether or not the accounts prepared comply with the requirements of the Industrial & Provident Societies Act of 1965 and the Friendly Industrial and Provident Societies Act 1968 as to the form and content of Trust accounts.

Guidance

A Sample set of Accounts can be downloaded below.

The examiner should check that the form and content of the Trust Accounts is consistent with the Sample set of Accounts provided by the FSA.

If the examiner is unsure about the form or the requirement for disclosure of a particular transaction, liability or asset they should refer to the appropriate legislation or seek advice the FSA.

Direction 8

Accounting policies, estimates and judgments

The examiner should review the accounting policies adopted and consider their conformity with fundamental accounting concepts, consistency of application and their appropriateness to the activities of the Trust.

The examiner must also consider and review any significant estimate or judgment that has been made in preparing the accounts.

Guidance

The accounting policies adopted, and also any estimates or judgments made in preparing the accounts, may have a material effect on both the financial activities and state of affairs disclosed by the accounts. Such matters therefore require careful consideration by the examiner.

The examiner should be satisfied that accounts are prepared on a basis consistent with the going concern assumption and accruals concept, and that the accounting policies adopted and applied are appropriate to the activities of the Trust and to ensure a relevant, reliable, comparable and understandable accounts presentation.

The examiner must consider the reasonableness of any estimates or judgments where they are material to the accounts.

Matters that may require consideration include:

- transfers to or from designated 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; and
- where applicable, the allocation of costs between the various expenditure categories of the Income and Expenditure Account.

Guidance 9

Events subsequent to the year end

Enquire of the Trust Board as to material events subsequent to the year end of the accounts examined which may require adjustments or disclosure in the accounts.

Guidance

An event occurring after the balance sheet date may have a material effect on both the financial activities and state of affairs disclosed by the accounts.

The events that have occurred subsequent to the year-end should therefore be discussed with the Trust Board Members and, where appropriate, with the Trust's staff. Any effects on the accounts under review should be considered.

The matters that should be discussed include:

- whether any income anticipated and accrued into the accounts at the year-end has proved irrecoverable;
- discovery of an error or fraud;
- crystallisation of a taxation liability;
- repayment of a grant or donation received;
- a valuation of a property indicating a permanent diminution in value.

Where an event occurring subsequent to the year-end affects the amount or disclosure of an item in the accounts this should be brought to the attention of the Trust Board Members with a view to the accounts being amended.

Direction 10

Trust Board Members' annual report

Compare the accounts to any financial references in the Directors' report and Performance Report (if any); identifying any major inconsistencies and consider the significance such matters will have on a proper and accurate understanding of the Trust's accounts.

Guidance

The Directors' report provides a report of the Trust's activities during the financial year. Trusts may also produce an Annual Performance Report to members setting out the Trust's activities during the year.

Procedures should be directed at identifying inconsistencies with the accounts which are misleading, or which contradict the financial information contained in the accounts.

Where inconsistencies are identified which may have a significant effect on the proper understanding of the accounts, this should be drawn to the attention of the Trust Board Members. If no appropriate amendment is made to the Directors' report or the Annual Performance Report, then details of the matter should be provided in the examiner's report.

Direction 11

Examiner's report

Review and assess all conclusions drawn from the evidence obtained from the examination and consider the implications on the examiner's report on the Trust Accounts. If the examiner has cause to make a statement on any matter arising from the examination, then the examiner must ensure so far as practicable that the report gives a clear explanation of the matter and of its financial effects on the accounts presented.

Guidance

The requirements as to the form and content of the examiner's report can be seen in the example below. The examiner needs to consider carefully the conclusions drawn from the procedures undertaken in accordance with these directions, and the impact of these conclusions on the examiner's report.

In providing the examination report the examiner must state whether or not any matter has come to attention, in connection with the examination, which gives reasonable cause to believe that in any material respect:

- accounting records have not been kept;
- the accounts do not accord with the accounting records; or
- whether the accounts fail to comply with the relevant Acts in respect of their form and content.

Where any of the above concerns have been identified there should be a clear explanation of the nature of the failure and of its financial effects on the accounts. If the financial effect cannot be ascertained due to uncertainty, the nature of the uncertainty should be explained. If the concern relates to noncompliance with the relevant Acts as to the form and content of accounts, this should be raised with the Trust Board Members to seek the necessary amendment to the accounts.

The examiner is also required to state whether or not any matter has been identified in connection with the examination to which, in the examiner's opinion, attention should be drawn in the report to enable a proper understanding of the accounts to be reached.

Where such matters have come to attention, then they should be brought to the attention of the Trust Board Members with a view to seeking an amendment or adjustment to the accounts. If concerns remain, the matter should be addressed in the examiner's report. The matter concerned should be fully explained together with the financial effects on the accounts.

There is also a requirement to provide a statement if the following matters have 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 objects of the Trust;
- any failure to be provided with information and explanation by any past or present Director, officer or employee that is considered necessary for the examination; and
- any material inconsistency between the accounts and the Directors' report or Annual Performance Report.

In order to identify any material expenditure or activities undertaken outside the objects of the Trust an understanding of the stated objects of the Trust, as set out in its Constitution (or Model Rules) is necessary.

The guidance provided under Direction 2 (Understanding the Trust) will be of particular relevance in obtaining a background understanding of the Trust's objectives and activities. Small or immaterial levels of expenditure on purposes outside of the objects of the Trust will not generally be included in the examiner's report unless they are of a recurrent nature.

Material expenditure or significant actions contrary to the objectives of the Trust would be a major concern and details should be included on 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.

Any failure to be provided with information and explanations may seriously hamper an examination. If information and explanations requested are not provided this matter must be included in the examiner's report.

Any major inconsistency between the accounts and the Directors' report or Annual Performance Report may give rise to misunderstanding. This should be brought to the attention of the Trust Board Members with a view to the amendment of the discrepancy. Where concerns still exist, this must be stated in the examiner's report.

Direction 12

Reports to the FSA

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

Guidance

If the examiner believes that one or more of the Trust Board Members have been responsible for deliberate or reckless misconduct in the administration of a Trust then a separate written report of the matter must be forwarded to the Board of the FSA

A reporting requirement would not arise through mere inadvertence or error of judgment on the part of a Trust Board Member whilst endeavouring honestly to carry out a Director's duties.

It is also unlikely that a reporting duty will arise unless a material loss or misapplication of funds has resulted or could result.

The duty to report relates to information or evidence obtained from the examiner's work undertaken in fulfilling these Directions or whilst acting in the capacity of the examiner of a Trust. It is not intended that the examiner should report on small or insignificant matters, particularly where such matters have been satisfactorily resolved internally.

The reporting duty relates primarily to the actions of the Trust Board Members. However, in considering individual actions, the examiner must take into account the Trust Board Members' overall responsibilities of management and control.

Where a reporting duty arises the examiner should report the matter in writing to the Chair of the Board of the FSA.

The examiner should state:

- the Trust's name and registration number;
- state that the report is made in accordance with "Direction 12" provided in this guidance;
- describe the matter giving rise to concern and, where possible, provide an estimate of the financial implications; and
- where the Trust Board Members are attempting to redress the situation a brief description of any steps being taken