



Invitation to comment

Directions for independent examination and related guidance including proposals to extend independent examination to consolidated accounts

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Closing date for comments: 30 September 2016

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Section 1: Key facts	
Subject of consultation:	The consultation requests comment on: the proposed new Directions for independent examination, the guidance given for each Direction, the examiner's reports and reporting to the commission, regulatory burdens and the need for an independent examination framework for consolidated (group) accounts.
Scope of this consultation exercise:	<p>Accompanying the Invitation to Comment is the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32). The exposure draft CC32 sets out each Direction in the context of the associated guidance. Additional sections of the guidance cover the statutory duty to report matters of material significance to the charity regulator (subject to a separate consultation) and specimen independent examiner's reports. The Invitation to Comment should be read in conjunction with the draft CC32 as it refers to that document throughout.</p> <p>A separate section of the Invitation to Comment explores the nature of regulatory burdens and requests feedback on the nature of any potential burden and related costs.</p> <p>Finally the last section of the Invitation to Comment considers the need for an independent examination framework for consolidated (group) accounts produced on a voluntary basis. Feedback is requested on the need for, and form and content, of such a framework.</p>
Who should read this consultation:	Independent examiners, donors, funders, financial supporters, preparers, trustees and others who may have an interest in the form and content of the independent examination of charity accounts.
Periods of consultation:	The consultation runs for 17 weeks from 3 June until 30 September 2016.
Secretariat:	Nigel Davies, Head of Accountancy Services.
How to respond to consultation:	<p>By email to IEchanges@charitycommission.gsi.gov.uk.</p> <p>Using the Vovici electronic form.</p> <p>By post to Nigel Davies, Charity Commission, Brendon House, 35-36 Upper High Street, Taunton, TA1 3PN.</p>
Additional ways to be involved:	Presentations are being given at events held by professional bodies.
Getting to this stage and previous engagement:	The Charity Commission convened a working party in the summer of 2016 to consider changes to the Directions. The guidance was then written in support of the draft Directions and circulated to the working party for review prior to being revised for the consultation. Membership of the working party is given in the annex.
After the consultation:	A summary of the research consultation responses will be published in the autumn. The responses and the feedback from consultation events will help us prepare the final Directions and guidance. The Directions will be made by the commission board and the new Directions and guidance issued by January 2017 and are likely to take effect from the March 2017. If the consultation confirms there is a requirement, a consultation on an independent examination for group (consolidated) accounts will be initiated by December 2016 with a view to issuing Directions and guidance for the independent examination of consolidated (group) accounts in the first quarter of 2017.

Section 2: Overview of the key changes

Why the Charity Commission is seeking to change the Directions and guidance'

The commission is responsible for issuing the Directions and guidance which independent examiners must follow in undertaking their independent examination. Please refer to the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32) for more information about an independent examination is and what an independent examiner does.

The last major review of independent examination was in April 2009 when the publication CC32 was updated following the implementation of the Charities Act 2006 including the extension of independent examination to smaller charitable companies.

There have been several recent developments that that have led to the commission deciding to consult on updating the Directions and guidance:

- the raising of the income criterion for audit from £500,000 to £1 million with effect for reporting periods (financial years) ending on or after 31 March 2015
- the raising of the threshold for the preparation of consolidated (group) accounts to £1 million also effective for reporting periods (financial years) ending on or after 31 March 2015
- the new approach to 'should' as expected practice rather than simply recommended practice in commission guidance
- the consultation by the UK charity regulators on the list of matters of material significance that must be reported to the charity regulators
- developments in the charity sector, in particular the report of the Public Administration and Constitutional Affairs Committee report on the collapse of the charity Keeping Kids Company (Kids Company)

Preparatory work on the Exposure draft CC32

Prior to launching this consultation, the commission convened an informal advisory group (for the membership see the annex) to advise the commission on the form and content of the new Directions and example independent examiner's reports. The advisory group also commented on the draft CC32.

The group's input was invaluable in developing a more plain English style and in testing the and considering the impact of the proposed new Directions and guidance. The commission wishes to thank the members of the advisory group for their advice and assistance.

The 7 areas where your comments are sought

The commission seek your views on 7 areas:

- the proposed new Directions
- the proposed guidance for each Direction
- new format for the examiner's report
- reporting of matters of material significance
- reporting of 'relevant matters'

- consolidated (group) accounts and independent examination
- consideration of regulatory burdens and other comments

Responses are welcome on 1 of more of the areas identified. If responding to 2 or more sections, you may wish to submit your comments either as a single response or instead choose to submit a separate response for each section.

All responses must be received by the closing date of 30 September 2016 if they are to be considered. When responding, it is helpful to the commission if you say a little bit about your background so that it understands your perspective and please give your reasons for your views.

Your comments will be invaluable in helping the commission develop final Directions and guidance for publication in the Independent examination of charity accounts: Directions and guidance for examiners (CC32). The revised Directions and CC32 are likely to take effect for reporting periods (financial years) ending on or after 31 March 2017.

The key changes proposed at a glance

There are 5 areas of significant change:

- the Directions
- the guidance for each Direction
- a new format for the examiner's report
- changes to the reporting of matters of material significance
- new guidance on the reporting of 'relevant matters'

The Directions: the number of Directions has increased from 8 to 13 and the all the Directions will now apply to receipts and payments accounts. The Directions are expressed in a plain English style with the legal references given as part of the guidance for each Direction.

The guidance for each Direction: the guidance has been revised for the existing Directions and guidance provided on the new Directions. The guidance is now given with a changed interpretation of the word 'should'. 'Should' is to be taken as being the practice the independent examiner is expected to follow if they are to fulfil their duty to deliver an independent examination that meets the requirements of the Directions and is not simply recommended practice.

A new format for the examiner's report: in a plain English style intended to more clearly communicate the outcome of the independent examination to trustees and others.

Changes to the reporting of matters of material significance: the Charities Act 2011 puts the independent examiner under a legal duty to report to the charity regulator if they come across a matter of material significance during their independent examination. The UK charity regulators are currently holding a separate consultation on this list of matters which closes on 11 September 2016 and the draft CC32 includes the proposed matters. The draft CC32 includes an appendix providing revised guidance to the examiner on meeting this reporting obligation.

Reporting of 'relevant matters': the Charities Act 2011 gives the independent examiner the discretion to report any matter relevant to the work of the commission. The draft CC32 includes an appendix setting out new guidance as to how this discretion might be used.

Nigel Davies
Head of Accountancy Services

Section 3: Consultation questions

It is important that before answering the questions which follow that you read the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32). The Invitation to Comment considers this draft publication and asks your views about it.

Section 3.1

The proposed new Directions

The Directions are made by the commission and govern the way in which the independent examiner does their work. An independent examination is intended as a high quality independent check where the examiner reports on specific matters and also the examiner reports any matters of concern they have identified to do with the accounts.

An independent examination is not an audit and so is not designed to deliver the same level of assurance. In revising the Directions, the commission is seeking to balance the reasonable expectations on what an independent examination should cover with the demands this places on the examiner and the trustees of the charity being examined.

The changes to the Directions are threefold: a move to plainer English, a move from the guidance being voluntary to the guidance being expected practice (see section 3.2 of the Invitation to Comment) and a reordering of the Directions with 3 new Directions.

The move to a more plain English approach in phrasing the Directions is intended to help the examiner understand more clearly what needs to be done. The proposed Directions are shown in the bold text and found in section 3 of the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#) entitled 'The commission's Directions'.

Q.1 Do you agree that the proposed Directions are phrased in a way which is clearer to understand and follow? If you answered no, please explain how the phrasing of the Directions can be improved.

The 3 additional Directions are:

- Direction 2: Check for any conflict of interest that prevents you as the examiner from carrying out your independent examination
- Direction 7: If during the independent examination the examiner identifies a conflict of interest was present and/or related party transaction took place, the examiner must check if these were properly authorised and were fully disclosed
- Direction 9: Check the charity's financial sustainability and the trustees' assessment of going concern

The new Direction 2 is based on the existing guidance found in section C3 of the current publication: Independent Examination of Charity Accounts - Examiner's Guide June 2015 and restates it as a Direction.

The new Direction 7 is based on the commission's regulatory experience of problems in charities and deals with 2 matters, firstly conflicts of interest and secondly the disclosure of related party transactions. The disclosure of related party transactions is only mandatory for charities preparing their accounts on an accruals basis..

The new Direction 9 asks all examiners to consider the charity's financial sustainability based on their knowledge of the charity. For accruals accounts only the trustees' consideration of 'going concern' is considered. Going concern is an element of the current guidance given to the existing Direction 8 found in: Independent Examination of Charity Accounts - Examiner's Guide June 2015. An assessment of going concern is not practicable for accounts prepared on a receipts and payments basis because there is no balance sheet and there are no accruals in the accounts. By itself, the balance of cash held at the end of the year is an insufficient basis on which to assess going concern.

Q.2 Do you agree that the 3 additional Directions are appropriate? If you answered no, please explain how the phrasing of the Directions can be improved.

Q.3 In reviewing the other Directions, do you agree that they are improvement over the existing Directions and what changes (if any) would you recommend? Please give your reasons why.

Section 3.2

The proposed guidance for each Direction

The guidance that follows each Direction is intended to enable the examiner to identify what they need to do to meet that requirement.

The guidance to each Direction and more generally throughout the draft publication identifies what the examiner 'should' do is now expected practice rather than simply being recommended best practice. The guidance to each Direction is shown in light text after each of the Directions which are given in bold text. The guidance to each Direction is found in section 3 of the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#).

Q.4 Do you agree with the contents of the guidance which follows each of the Directions and what changes to the guidance (if any) should be made and why? Please give your reasons in support of your suggestions.

Section 3.3

New format for the examiner's report

The existing recommended formats for the independent examiner's report for charities solely registered in England and Wales are given in appendix 3 to Independent Examination of Charity Accounts - Examiner's Guide June 2015. The advisory working group agreed that these examples should be improved because the current format is too legalistic in style and not well understood by trustees. It is to the trustees that the report is addressed. The new formats for the reports are intended to better explain what the examiner has done and what concerns, if any, they have identified.

The new example format reports are found in appendix 6 of the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#).

Q.5 Do you agree that the example independent examiner's reports are an improvement and what changes (if any) would you suggest? Please give your reasons in support of your suggestions.

Q.6 Do you agree that the example independent examiner's reports meet all the legal requirements and what changes (if any) are needed? Please give your reasons in support of your suggestions and state which regulatory requirement(s) are not being met.

Section 3.4

Reporting of matters of material significance

The UK charity regulators: the commission, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland have a separate consultation on the list of matters of materials significance to the be reported. This Invitation to Comment on the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#) therefore does not cover these 10 matters set out in section 4 of the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#).

If you have a comment on the matters of material significance please submit a response to the separate consultation, details of which can be found on [GOV.UK](#).

Your views are sought on the supporting guidance to examiners set out in appendix 7 on the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#). The guidance is intended to help by providing some background to each matter and to assist the examiner understand what is required.

Q.7 Is the guidance in appendix 7 for each of the listed matters of material significance helpful, and how might it be improved? Please provide reasons for your answer.

Section 3.5

New guidance on the reporting of 'relevant matters'

The commission's regulatory experience has been that independent examiners rarely exercise their discretion to report 'relevant matters' to the commission. To encourage greater reporting the exposure draft [Independent examination of charity accounts: Directions and guidance for examiners \(CC32\)](#) includes a specific section, section 5, that provides guidance on reporting relevant matters.

In particular the examiner is encouraged to report matters to the commission where these are covered by the range of its existing publications and guidance.

Q.8 Is the new section on reporting relevant matters to the commission helpful and if you answered no, how can it be improved? Please provide reasons for your answer.

Section 3.6

Consolidated (group) accounts and independent examination

The charities Act 2006 introduced a statutory framework for the preparation of consolidated accounts by charities, initially with an income of more than £500,000. Section C6 of Independent Examination of Charity Accounts - Examiner's Guide June 2015 did not anticipate trustees would opt to prepare consolidated accounts where these are not required by law. Therefore the current Directions and guidance do not consider the independent examination of consolidated accounts in any detail.

The advisory working group (see annex) recommended that an independent examination framework be written for consolidated accounts as even though the legal threshold has been raised to £1 million, some trustees will wish to continue to prepare consolidated accounts on a voluntary basis. The counter argument is that by creating a framework for independent examination of consolidated accounts this might lead to trustees believing that they had to prepare consolidated accounts when they did not or it might discourage trustees who were no longer required to prepare consolidated accounts by law from the cheaper and simpler option of preparing charity only accounts.

Q.9 Do you agree that the Directions and guidance for independent examination should be extended to consolidated accounts. Please give your reasons why.

If the framework were extended to consolidated (group) accounts then the examiner would need to consider the parent charity's subsidiaries because on consolidation the results of the subsidiaries, net of intra group transactions, are combined with those of the parent in a single presentation.

The commission's initial view is that the following proposed Directions would need amending:

- Direction 1 and related guidance to be amended to include a reference to the consolidated accounts preparation threshold
- Direction 2 and related guidance to be amended to include the examiner having no direct involvement with any subsidiary, joint venture or associate
- Direction 3 and related guidance to include a reference to work relating to any aspect of the consolidated accounts
- Direction 4 to include a reference to work relating to any aspect of the consolidated accounts
- Direction 5, the related guidance only be amended to refer to the records relating to the consolidated results of any subsidiary, joint venture or associate
- Direction 6, the related guidance only be amended to refer to the records relating to the consolidated results of any subsidiary, joint venture or associate
- Direction 8, the related guidance only be amended to refer to the basis of accounts preparation in respect of the consolidated results of any subsidiary, joint venture or associate
- Direction 11, the related guidance only be amended to refer to the results relating to the consolidated results of any subsidiary, joint venture or associate
- Direction 13 be amended to include a reference to any subsidiary, joint venture or associate which has been consolidated

Q.10 Do you agree that if the Directions and guidance are extended to consolidated accounts that the only modifications are those listed and if you answered no, what further modifications are required? Please give reasons for your answer.

Section 3.7

Consideration of regulatory burdens and other comments

The commission anticipates that the changes set out in the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32) are reflective either of current practice or will not give rise to a significant burden on examiners and trustees. However the commission is keen to get your views on what any burden might be so that it can weigh up the value of the changes it proposes against any additional costs that might be involved.

Q.11 Do you agree that the proposed changes to Directions and guidance to independent examination will not give rise to significant additional burdens on examiners and trustees and if you answered no, what are the additional burdens? Please give reasons for your answer and if you have identified significant additional burdens, please express them in terms of the additional time to be spent and/or additional items of cost that will be incurred.

Please take the opportunity to also give any other comments and feedback you wish, including your views about the suggested implementation date for the changes to independent examination.

Q.12 Do you have any other comments on the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32)? If so, please state the part of the exposure Draft you are considering and set out your comments with supporting reasons as to why a change is needed.

Q.13 The new Directions are intended to take effect for reporting periods (financial years) ending on or after 31 March 2017. Do you agree that this effective date is reasonable and if you answered no, what alternate date would you suggest and why?

Section 4: Summary of the consultation questions

Q.1 Do you agree that the proposed Directions are phrased in a way which is clearer to understand and follow? If you answered no, please explain how the phrasing of the Directions can be improved.

Q.2 Do you agree that the 3 additional Directions are appropriate? If you answered no, please explain how the phrasing of the Directions can be improved.

Q.3 In reviewing the other Directions, do you agree that they are improvement over the existing Directions and what changes (if any) would you recommend? Please give your reasons why.

Q.4 Do you agree with the contents of the guidance which follows each of the Directions and what changes to the guidance (if any) should be made and why? Please give your reasons in support of your suggestions.

Q.5 Do you agree that the example independent examiner's reports are an improvement and what changes (if any) would you suggest? Please give your reasons in support of your suggestions.

Q.6 Do you agree that the example independent examiner's reports meet all the legal requirements and what changes (if any) are needed? Please give your reasons in support of your suggestions and state which regulatory requirement(s) are not being met.

Q.7 Is the guidance in appendix 7 for each of the listed matters of material significance helpful, and how might it be improved? Please provide reasons for your answer.

Q.8 Is the new section on reporting relevant matters to the commission helpful and if you answered no, how can it be improved? Please provide reasons for your answer.

Q.9 Do you agree that the Directions and guidance for independent examination should be extended to consolidated accounts. Please give your reasons why.

Q.10 Do you agree that if the Directions and guidance are extended to consolidated accounts that the only modifications are those listed and if you answered no, what further modifications are required? Please give reasons for your answer.

Q.11 Do you agree that the proposed changes to Directions and guidance to independent examination will not give rise to significant additional burdens on examiners and trustees and if you answered no, what are the additional burdens? Please give reasons for your answer and if you have identified significant additional burdens, please express them in terms of the additional time to be spent and/or additional items of cost that will be incurred.

Q.12 Do you have any other comments on the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32)? If so, please state the part of the exposure Draft you are considering and set out your comments with supporting reasons as to why a change is needed.

Q.13 The new Directions are intended to take effect for reporting periods (financial years) ending on or after 31 March 2017. Do you agree that this effective date is reasonable and if you answered no, what alternate date would you suggest and why?

Section 5: The consultation process and how to respond

How to respond to this consultation

A summary of the questions in this consultation is set out in section 4 of this invitation to comment.

The closing date for responses is **30 September 2016**. You can respond by:

- By email to IEchanges@charitycommission.gsi.gov.uk.
- By completing the [Vovici electronic response form](#).
- By post to Nigel Davies, Charity Commission, Brendon House, 35-36 Upper High Street, Taunton, TA1 3PN.

Please tell the commission in what capacity you are replying, for example as a charity trustee, volunteer treasurer, member of a charity's staff, charity auditor, independent examiner, umbrella body or representative group, beneficiary/user of charity services, funder or simply as a member of the public. It will not be possible to give substantive replies to each response received.

Confidentiality

In accordance with the code of practice on open government the comments submitted will be made publicly available. If you want your response to be treated as confidential, it would be helpful to the commission if you could briefly explain why you regard the information you have provided as confidential. If you are replying by e-mail or using the Vovici electronic form, please make it clear in the body of your response if you wish your comments to be treated as confidential and why.

The commission will take full account of your explanation but it cannot give an assurance that confidentiality can be maintained in all circumstances.

Annex: Members of the independent examination advisory group

Charity Commission members:

Mike Ashley, board member

Nigel Davies, Working Party chair and secretary

Sector funders:

Martin Hedley-Smith, Big Lottery Fund

Gerald Oppenheim, Association of Charitable Foundations

Professional and umbrella bodies:

Andrew O'Brien, Charity Finance Group

Nick Brooks, Charities Technical Sub-committee ICAEW

Roger Chester, Association of Church Accountants and Treasurers

Richard Martin, ACCA

Gillian McKay, ICAEW

Christopher Smith, Association of Independent Examiners

Practitioner members:

Don Bawtree, BDO LLP

Andrew Machin, Harrow Apollo Male Choir

Professor Gareth Morgan, Sheffield Business School

John O'Brien, Community Accounting Plus