



Leaflet F04: Independent Examination of Church Accounts

This explanatory document aims to provide guidance regarding independent Examination of Church Accounts.

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What is Independent Examination?

All charities with a gross annual income over £25,000 are required by charity law to have some form of external scrutiny of their accounts. An independent examination is an external review of a charity's accounts and is carried out by an independent person with the requisite ability and practical experience to carry out a competent examination.

An independent examination is less onerous and less costly than a full audit. An independent examiner must only confirm whether any material matters of concern have come to their attention, whilst an auditor is required to more actively test the accuracy of the accounts and must provide an opinion on whether the accounts provide a 'true and fair view' of the finances of the charity.

An audit is carried out in accordance with international standards of audit and the audit guidance issued by the Financial Reporting Council, whereas an Independent Examination is carried out in line with the Charity Commission guidance to Independent Examiners. An examination is therefore a less thorough form of scrutiny than an audit. It provides less assurance in terms of the depth of work which is to be carried out and is limited as to the matters on which the examiner reports.

For financial years ending on or after 31 March 2015, trustees may opt for an independent examination instead of an audit provided that

- 1) their charity's gross income is not more than £1m, or
- 2) their charity's gross income is between £250,000 and £1m but its gross assets are less than £3.26 million.

The majority of Baptist Churches can therefore take advantage of the option to have an independent examination rather than an audit.

The Charity Commission has produced a leaflet CC31 providing guidance for charity trustees on Independent examination which can be found at:

<https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cc31>

Who may act as an 'independent examiner'?

The church trustees are legally responsible for selecting the Independent Examiner, however in Baptist Churches the independent examiner will normally be appointed by the church meeting. An independent examiner as described in the Charities Act is 'an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts'.

An independent examiner of accounts where the income does not exceed £250,000 does not have to be professionally qualified but s/he must be independent of the trustees and, in the opinion of the trustees, have the requisite ability and practical experience to carry out a competent examination of the accounts. An independent examiner of accounts where the income is between £250,000 and £1,000,000 must be professionally qualified and authorised to audit the accounts of limited companies, or a Fellow of the Association of Charity Independent Examiners.

For an examiner to be 'independent' the individual should have no connection with the trustees which might be thought to inhibit the impartial conduct of the examination. A person is treated as 'connected' if s/he is a trustee, or is a close relative or a business partner or employee of a trustee, or makes very

large donations to the church. However, subject to these provisos, there is no reason why a church member should not serve as an independent examiner provided s/he has the requisite ability and practical experience and has not served as a trustee during, or since, the accounting period under review. It is also permissible to appoint more than one examiner if a church so chooses.

How does a church engage an independent examiner?

Many Baptist churches have been successful in identifying a suitable independent examiner who is happy to do the role on a voluntary basis. If you are struggling to do this, you may find you are able to identify someone by contacting other local Baptist churches or local churches of other denominations.

If the church trustees are unable to identify someone who is willing to act as Independent Examiner on a voluntary basis, you will need to engage someone to carry it out on a paid basis and many local accountants will be willing to do this. Depending upon the size and complexity of the accounts this will usually cost in the hundreds of pounds, or perhaps in the low thousands of pounds.

Irrespective of whether an independent examiner is to be paid for serving as Independent Examiner, the terms of engagement should be set out in writing. A template for terms of engagement is included in this leaflet.

What are the rights and duties of an independent examiner?

An independent examiner has a right of access to any books, documents and other records which relate to the church and also to require such information and explanations from past or present officers, trustees or employees as s/he considers necessary for the purposes of the examination. It is the responsibility of the church trustees to provide these to the Independent Examiner.

The Independent Examiner also has a statutory duty to immediately report matters of material significance to the Charity Commission under the Charities Act 2022. The Charity Commission has published a list of matters that must always be reported to the Charity Commission, but the Independent Examiner has the discretion to report other matters that they feel would be of interest to the Commission.

The list of reportable matters is as follows:

1. Fraud and dishonesty (including cyber-crime) including to [Action Fraud](#)
2. Failure of Internal Controls and Governance
3. Money Laundering and Criminal Activity
4. Links or Support of Terrorism
5. Risk to Charity's Beneficiaries
6. Breaches of the law or the charity's trusts
7. Breach of an order or direction made by a charity regulator
8. Modified audit opinion or qualified independent examiner's report
9. Conflicts of interest and related party transactions

What is involved in an independent examination?

The Charity Commission has published guidance to Independent Examiners in leaflet CC32, which can be found at <https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-examiners-cc32>. This guidance sets out what an independent examiner must do. The requirements are summarised as follows:

1. Check whether the charity is eligible to have an independent examination.
2. Check for any conflict of interest that prevents the examiner from carrying out their independent

examination.

3. Record the examination procedures carried out and any matters important to support the conclusions reached or statements provided in the examiner's report.
4. Plan the independent examination, including reviewing the constitution, organisation, accounting procedures, activities, assets and liabilities and income and expenditure and financial risks faced by the Church.
5. Review the accounting records to ensure they are kept to a suitable standard and provide a reasonable basis for identifying any material failure to maintain such records.
6. Compare the accounts with the accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts accord with the records.
7. If the accounts are prepared on an accruals basis and there are transactions between the Church and a related party (for example the spouse of a Trustee), ensure that these are properly disclosed in the notes to the accounts.
8. Consider the reasonableness of the significant estimates and judgements used in the preparation of accounts and of the accounting policies used in accounting for the types of funds held and in the preparation of accounts. If the accounts are prepared on an accruals basis, check that the accounting policies are consistent with the Charities SORP (Statement of Recommended Practice).
9. Check whether the trustees have considered the financial circumstances of the Church at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have, when approving the accounts, made an assessment of the Church's ability to settle its debts as they fall due.
10. Check the form and content of the accounts to provide a reasonable basis to conclude that the accounts have been properly prepared, for example with the Charities SORP if prepared on an accruals basis, and in accordance with applicable company law requirements if it is a company.
11. Carefully consider if, during the course of the examination, items were found that were material to the accounts which need further explanation or supporting evidence. If there is a concern that the charity's accounts could be materially misstated, undertake sufficient additional work to be satisfied that any such item has been explained and correctly included in the accounts.
12. Compare any narrative information or figures in the trustees' annual report with the accounts. in order to identify any material inconsistency between the trustees' annual report and the accounts.
13. Review the conclusions from the independent examination and then prepare and sign the independent examiner's report. If the examination has identified any matters of concern then these must be brought to the attention of trustees in the independent examiner's report.

Further guidance

Treasurers may also make use of the guidance available from the Association of Church Accountants and Treasurers (ACAT). Membership of ACAT is funded by Baptists Together for all treasurers of member churches. You may access their website member area at <https://acat.uk.com> using the username "Baptist" and password "Didcot".

Also the team at Baptist House are always happy to deal with queries. Their contact details are on the final page of this leaflet.

Charity Commission Reports (templates)

- [Independent Examiner's Report](#)

Suggested letter from church secretary/treasurer to independent examiner

[On church headed notepaper]

Dear

I write on behalf of the Church to thank you for your willingness to act as Independent Examiner in connection with the accounts of the Church. [You will be acting with ***** who is appointed on the same terms.]

So that your duties and terms of your appointment are clear, I attach two copies of the formal Terms of Engagement (these being the standard terms recommended by the Baptist Union) setting out the respective obligations and responsibilities of yourself and the Trustees. Both copies have been signed on behalf of the Church and I would be glad if you would likewise sign both copies and then return one of them to me.

If any questions arise concerning the Terms of Engagement or the scope of your examination please refer to me.

Yours sincerely

Church Secretary/Treasurer

Recommended Terms of Appointment for Independent Examiner

Name of Church _____ ('the Church', 'Us')

Name of Independent Examiner _____ ('the Examiner', 'You', 'Your')

1. Engagement as Independent Examiner

The purpose of this agreement is to confirm the basis on which You as the Examiner will act as independent examiner to prepare a report in respect of the Church's financial statements for the year ended _____ in accordance with Section 145 of the Charities Act 2011 ('the Act').

2. Responsibilities of the Church

The Church and its Charity Trustees are responsible for

- a) maintaining proper accounting records and preparing accounts which comply with the requirements of the Act and the Charities SORP;
- b) for determining whether, in respect of the year to be examined, the Church meets the conditions for exemption from an audit of the accounts set out in Section 145(1) of the Act; and
- c) for providing You with information and explanations required for Your examination.

3. Responsibilities of the Examiner

3.1 As an independent examiner You have a statutory duty to:

- a) state in Your report whether any matter has come to Your attention in connection with the examination which gives You reasonable cause to believe that in any material respect accounting records have not been properly kept in accordance with Section 130 of the Act or do not accord with the accounting records or comply with the Regulations other than in respect of the requirement for a true and fair view;
- b) disclose in Your report matters coming to Your attention during the examination to which, in Your opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached;
- c) make any written report to the Charity Commission in compliance with Section 156 of the Act.

3.2 You will plan your work on the basis that an independent examiner's report on the accounts is required for that year, unless we inform you in writing to the contrary.

3.3 You will not retain or disclose any information obtained during the course of your examination other than to the Trustees, or where there is a statutory duty to do so or where specifically authorised to do so in writing by the Trustees.

4. Scope of the Examiner's work

4.1 Your work as an independent examiner will be carried out in accordance with general directions of the Charity Commission. Your examination will be a less onerous form of scrutiny than an audit of the accounts in accordance with Auditing Standards and will include:

- a) a review of the accounting records kept by the Church and a comparison of the accounts presented with those records;
- b) a review of the accounts and consideration of any unusual item(s) or disclosure(s) identified. In such cases where You identify an unusual item, You will seek an explanation from us and may carry out verification and vouching procedures where You require further clarification.

4.2 Your 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 have taken place and which the Church has a responsibility to guard against. Should You become aware, for any reasons, that the accounts may be misleading and we cannot agree appropriate amendments, and You conclude that the matter cannot be adequately dealt with in Your report, You will not issue any report, will withdraw from the engagement and notify Us in writing of the reasons.

4.3 Should You conclude that the Church is not entitled to exemption from an audit of the accounts or should You be unable to reach a conclusion on this matter then You will notify Us in writing of the reasons. If appropriate, you will discuss with us the need to appoint an auditor.

4.4 As part of your normal procedures, You may request us to provide written confirmation of any information or explanations given by Us orally during the course of your work.

5. Fees

[EITHER The role of independent examiner is not remunerated OR The Church agrees to pay You £ _____ upon receipt by the Charity Trustees of the completed report in the format required by the Charity Commission.]. The church will cover any out of pocket expenses incurred in the course of Your work.

6. Confirmation

This agreement will remain effective until it is replaced or until You cease to hold the position of independent examiner. You will confirm Your acceptance of the terms of this agreement by arranging for the signature and return of the attached copy to Us.

Signed on behalf of the Church _____ Date _____

Signed by or on behalf of the Examiner _____ Date _____

Template for Independent Examiners report (where independent examiner does not wish to highlight any issues)

Report of the Independent Examiner(s) to the Trustees of _____

On the accounts for the year ended _____

Respective responsibilities of Trustees and Examiner

The Church's Trustees are responsible for the preparation of the accounts. The church's trustees consider that an audit is not required for this year under section 144 of the Charities Act 2011 (the Charities Act) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 145 of the Charities Act,
- to follow the procedures laid down in the general Directions given by the Charity Commission (under section 145(5)(b) of the Charities Act, and
- to state whether particular matters have come to my attention.

Basis of independent examiner's statement

My examination was carried out in accordance with general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the church and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently no opinion is given as to whether the accounts present a 'true and fair' view and the report is limited to those matters set out in the statement below.

Independent examiner's statement

Since the Church's gross income exceeded £250,000 your examiner must be a member of a body listed in section 145 of the 2011 Act. I confirm that I am qualified to undertake the examination because I am a member of [insert named of applicable listed body], which is one of the listed bodies. (Delete if income is less than £250,000)

In connection with my examination, no material matters have come to my attention which gives me cause to believe that in, any material respect:

- accounting records were not kept in accordance with section 130 of the Charities Act or
- the accounts do not accord with the accounting records
- the accounts do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination. (if accounts prepared on accruals basis*)

I have come across no other matters in connection with the examination to which attention should be drawn in order to enable a proper understanding of the accounts to be reached.

**Delete the words in the brackets if they do not apply*

Signed by or on behalf of the Examiner _____ Date _____

Name _____

Relevant Professional Qualification(s) or body (if any) _____

Address _____

This is one of a series of Guidelines that are offered as a resource for Baptist ministers and churches. They have been prepared by the Baptist Union of Great Britain and are, of necessity, intended only to give very general advice in relation to the topics covered. These guidelines should not be relied upon as a substitute for obtaining specific and more detailed advice in relation to a particular matter.

The staff at the Baptist Union of Great Britain at Baptist House will be very pleased to answer your queries and help in any way possible.

Contact Address and Registered Office:

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