Independent Examination of Charity Accounts:
Guidance Notes
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Contents

Introduction.............................................................................................................. 2
Other external scrutiny requirements ................................................................. 2
What is an examination? ...................................................................................... 3
Selection of examiners ......................................................................................... 3
The examiner’s report ......................................................................................... 3
General Registry Guidelines ............................................................................... 4
   Guideline 1: Examination and accounting thresholds................................. 5
   Guideline 2: Understanding the charity ......................................................... 5
   Guideline 3: Documentation .......................................................................... 6
   Guideline 4: Comparison with accounting records ....................................... 7
   Guideline 5: Accounting records ................................................................... 7
   Guideline 6: Analytical procedures ............................................................... 8
   Guideline 7: Accounting policies, estimates and judgements ...................... 9
   Guideline 8: Events subsequent to the year end .......................................... 10
   Guideline 9: Trustees’ annual report (where applicable)............................. 10
   Guideline 10: Examiner’s report ................................................................. 11
   Guideline 11: Reports to the General Registry ............................................ 12
Appendix 1 - Guidance on the selection of an examiner................................. 14
Appendix 2 - Reporting duties and examples of an examiner’s reports............ 17
   Example 1: Examiner’s unqualified report................................................... 18
   Example 2: Examiner’s qualified report - failure to disclose investments at
               market value ......................................................................................... 19
   Example 3: Examiner’s qualified report - a matter to be brought to attention
               in the report ......................................................................................... 21
Appendix 3 - Calculation of gross income ....................................................... 23
Appendix 4 - Examples of deliberate or reckless misconduct.......................... 24
Reports to the General Registry ...................................................................... 24
Appendix 5 - Glossary of terms ...................................................................... 25
Appendix 6 - Table indicating eligibility requirements for independent
            examination ......................................................................................... 28
Introduction

Please note: Further information and downloadable copies of relevant legislation, forms and guidance are available from the General Registry website: www.gov.im/charities.

The Charities Registration Act 1989 ("the 1989 Act") makes provisions for Regulations governing the form and content of charity accounts, trustees’ annual reports and the duties of charity auditors and independent examiners. The Act embodies the concept that some form of independent scrutiny is required for the accounts of all but the smallest charities, but that this will fall short of the requirement for a full audit for many charities.

This publication is intended as general guidance for charities and those who carry out the independent examination of charities’ accounts and describes how they should set about their duties. It also sets out (Appendix 1 - Guidance on the selection of an examiner) the points which trustees should consider when selecting an examiner. Please note that this document is intended as general guidance – it does not constitute legal advice and should not be construed as containing all relevant statutory obligations. If in any doubt you should consult your own legal advice.

Unincorporated charities, whose gross income is £250,000 or less in the current financial year, may elect to have an independent examination unless the governing document constituting the charity stipulates that an audit is required.

There is no requirement for independent scrutiny where gross income for the year in question is less than £25,000 unless the governing document constituting the charity stipulates that an audit is required.

(See also Appendix 3 - Calculation of gross income.)

Other external scrutiny requirements

The trustees and examiner must be aware that the provisions of the 1989 Act which allow for independent examination can apply to a charity which is a company; however, a charity which is a company must also comply with the accounts scrutiny requirements of the Companies Acts.

Further information can be obtained from the Department of Economic Development:

http://www.gov.im/ded/companies/companiesregistry.xml

The trustees and examiner must also be aware that an audit obligation may arise due to requirements outside of the 1989 Act, such as:

- a requirement under the charity’s governing document (although if this means a higher level of scrutiny than otherwise required by the Act, the trustees may be able to amend the governing document – see Appendix 1);
- a requirement under another statutory or regulatory regime, such as those relating to registered social landlords; or
- a requirement placed on the charity by a donor or financier (e.g. a loan-making institution).

Trustees may also opt for an audit if they prefer the higher level of assurance that it provides but they should be made aware that if this entails an additional cost to the charity it may be subject to action by the Attorney General by virtue of section 10(3)(b) of the Charities Registration Act 1989.
What is an examination?

Independent examination was introduced into the 1989 Act by section 17 of the Audit Act 2006 (coming into operation on 1st April, 2007) which amended the 1989 Act to allow independent examinations as an alternative to audit for charities meeting certain criteria. It is a less onerous form of scrutiny than an audit and provides less assurance both in terms of the depth of work which is to be carried out and the qualification necessary to undertake such work. An examination involves a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also involves a review of the accounts and consideration of any unusual items or disclosures identified. Verification and vouching procedures only become necessary where material concerns or doubts arise from procedures, and where satisfactory explanations cannot be obtained from the trustee body.

The examiner is not required to build up a body of evidence to support a positive opinion on the accounts as would be required with an audit. Nor is the examiner required to form an opinion as to whether the accounts show a "true and fair view".

Selection of examiners

Appendix 1 - Guidance on the selection of an examiner sets out our guidance on the selection of an independent examiner. Whilst examiners do not have to hold a professional accountancy qualification, they do have to hold one of the qualifications prescribed by the Charities Regulations 2007. The trustees must appoint a person suitable for the circumstances of the charity. It is strongly recommended that trustees of charities with gross assets in excess of £1,000,000 but below the compulsory audit threshold, should select a qualified accountant (or an individual with similar qualifications in charity finance at an appropriate level) to carry out the independent examination. In other cases where the accounts are prepared on the accruals basis in accordance with Regulations, a commensurate understanding of accountancy principles and accounting standards will still be needed. Experience of charity administration and accounting is desirable. The guidance also gives consideration to the criteria of independence when selecting an examiner. The prospective examiner should consider these guidelines prior to accepting appointment.

Provisions also exist for the appointment of an “approved person” to act as an independent examiner. These are persons, who whilst they may not hold an appropriate qualification for independent examiners, are considered by the Trustees to be of suitable standing and experience to examine their accounts. Trustees should apply to the First Deemster to have a person accepted as an approved person for charity accounts examination.

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 in Regulation 2 of the Charities Regulations 2007, reproduced in Appendix 2 together with example formats of examiner’s reports

In the 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:

- proper accounting records have not been kept; 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 trusts of the charity;
- 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.

**General Registry Guidelines**

The General Registry Guidelines provide a procedural basis or framework to define the reporting duties of the examiner. There are eleven specific Guidelines that the examiner should address in carrying out an examination. Eight of these apply to all accounts and three apply only when accounts are prepared on an accruals basis.

Set out below are:

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

The Guidelines are reproduced in bold print 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 judgment will need to be exercised by all examiners in the context of their work.
Guideline 1: Examination and accounting thresholds

1. Carry out such specific procedures as are considered necessary to provide a reasonable basis on which to conclude that an examination is required.

Guidance

1.1 Trustees may elect for independent examination (under section 5 (4)(b) of the 1989 Act). For this election to be valid, the charity must be within the relevant income bands specified by legislation. The examiner should therefore ascertain:

- the charity’s gross income for the financial year concerned;
- whether the charity’s governing document stipulates any form of professional audit; and
- whether any grant condition demands an audit.

1.2 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 charity.

1.3 In cases where the charity’s gross recorded income for the year of the accounts, exceeds the threshold level of £250,000 (below which an independent examination can be carried out), the accounts should be referred back to the charity trustees for an auditor to be appointed in accordance with 5(2) of the 1989 Act.

1.4 Examiners should also familiarise themselves with the various other threshold bands and their effect on the accounting procedures for charities:

- Where the charity’s gross recorded income is less than £25,000, there is no statutory requirement for an independent examination. In such cases the examiner should refer the accounts back to the charity trustees for confirmation as to whether the examination should proceed.

1.5 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 the income threshold has been crossed.

1.6 The level of income should be calculated in accordance with the methods set out in Appendix 3 - Calculation of gross income. If accounts are prepared on the accruals basis then the level of income should be considered on the accruals basis. Where accounts are prepared on the receipts and payments basis then the level of income should be considered on the basis of money actually received and expended.

Guideline 2: Understanding the charity

2. Obtain an understanding of the charity’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 charity.

Guidance

2.1 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 charity. This understanding will
help the examiner to plan appropriate examination procedures. The steps taken by an examiner would normally include:

- consideration of the governing document of the charity, paying particular attention to the charity’s objects, powers and obligations;
- discussions with trustees and, where appropriate, the charity’s staff to ascertain the structure, methods and means by which the charity seeks to achieve its objects;
- discussions with the trustees and, where appropriate, the charity’s staff about the affairs, and activities of the charity in order to gain an insight into any special circumstances and problems affecting the charity;
- reviewing the minutes of trustees’ meetings to ascertain details of major events, plans, decisions and changes to the trustee body; and
- obtaining details of accounting records maintained and methods of recording financial transactions.

2.2 The examiner is expected to consider whether the funds received by the charity are being applied in accordance with the donor’s wishes. A review of published brochures, appeal materials, advertisements and the like should be considered to ensure that these are in accordance with the objects of the charity, and that funds so raised have been applied as intended.

**Guideline 3: Documentation**

3. 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

3.1 The working papers should provide details of the work undertaken and support any conclusions reached, and record any judgmental matters (see 7.1) 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 trustees, together with evidence that this has been accepted by the trustees (for example a return copy of the letter signed by a representative of the trustees);
- relevant information extracted or obtained from the governing document, trustees’ meeting minutes and a record of discussions with the charity trustees and the charity’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 trustees’ annual report; and
- copies of any written assurances obtained from the trustees confirming amounts included within the accounts.
Guideline 4: Comparison with accounting records

4. Compare the accounts of the charity with the charity’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

4.1 It is necessary to compare the accounts with the underlying accounting records. Where prepared on the accruals basis, all balances in the accounts will need to be compared with the trial balance or any nominal ledger maintained. Where accounts are prepared on the receipts and payments basis a direct comparison with the cash records of the charity should be carried out if no nominal ledger is kept.

4.2 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 by using computer accounting packages.

4.3 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.

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

4.5 Whilst the charity trustees are responsible for the preparation of accounts, on occasions the examiner may also prepare accounts on behalf of the trustees. The preparation of accounts will not generally impinge on independence (see Appendix 1 - Guidance on the selection of an examiner) provided the examiner ensures that the requirements of the Directions are met and avoids involvement in the management or administration of the charity. 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.

Guideline 5: Accounting records

5. Review the accounting records maintained in accordance with section 3 of the Charities (General) Regulations 1990 in order to provide a reasonable basis for the identification of any material failure to maintain such records.

Guidance

5.1 The charity trustees are responsible for maintaining the accounting records.

5.2 The examiner is required to review the accounting records with a view to identifying any material failure to maintain such records in accordance with section 3 of the 1990 Regulations.

5.3 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.
5.4 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.

5.5 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.

5.6 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.

5.7 Smaller charities 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.

**Guideline 6: Analytical procedures**

6. 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 charity trustees.

If, after following such procedures, the examiner has reason to believe that in any respect the accounts may be materially mis-stated then additional procedures, including verification of the asset, liability, incoming resource or application, must be carried out.

**Guidance**

6.1 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 charity - it is important to have obtained a proper understanding of the nature of the charity’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 charity.
6.2 Where analytical review procedures identify any unusual items, unexpected fluctuation or inconsistency then explanations should be sought from the charity trustees or, where appropriate, the charity’s staff.

6.3 If the explanations provided by the charity trustees or, where appropriate, the charity’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.

6.4 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 judgment and to draw on experience.

**Guideline 7: Accounting policies, estimates and judgements**

7. When accounts are prepared under an accrual basis, review the accounting policies adopted and consider their conformity with fundamental accounting concepts, consistency of application and their appropriateness to the activities of the charity. The examiner must also consider and review any significant estimate or judgement that has been made in preparing the accounts.

Guidance

7.1 Where accounts are prepared under an accruals basis, 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.

7.2 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 charity and to ensure a relevant, reliable, comparable and understandable accounts presentation.

7.3 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 Statement of Financial Activities.
7.4 If accounts are prepared on the receipts and payments basis, the only fundamental accounting concept which applies is that of consistency. Accounting policies and judgmental issues have less relevance since the receipts and payments account is simply a factual record of money actually received and expended. The statement of assets and liabilities is a straightforward schedule of information. This direction therefore does not apply to such accounts, unless other examination procedures have given rise to concerns that need to be addressed in this way.

**Guideline 8: Events subsequent to the year end**

8. When accounts are prepared under an accrual basis, enquire of the charity trustees as to material events subsequent to the year end of the accounts examined which may require adjustments or disclosure in the accounts.

Guidance

8.1 Where accounts are prepared under an accruals basis, 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.

8.2 The events that have occurred subsequent to the year end should therefore be discussed with the charity trustees and, where appropriate, with the charity’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.

8.3 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 charity trustees with a view to the accounts being amended.

8.4 If accounts are prepared on a receipts and payments basis, then there is no requirement to consider events subsequent to the year end, unless other examination procedures have given rise to concerns which need to be addressed in this way.

**Guideline 9: Trustees’ annual report (where applicable)**

9. When accounts are prepared under an accrual basis, compare the accounts to any financial references in the charity trustees’ annual report (if any); identifying any major inconsistencies and consider the significance such matters will have on a proper and accurate understanding of the charity’s accounts.

Guidance

9.1 The trustees’ annual report provides a report of the charity’s activities during the financial year.

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

9.3 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 charity trustees. If no
appropriate amendment is made to the annual report then details of the matter should be provided in the examiner’s report.

9.4 If accounts are prepared on the receipts and payments basis there is no requirement placed on the examiner to consider the trustees’ annual report. The examiner may, nevertheless, find the annual report a useful guide to the activities of the charity.

**Guideline 10: Examiner’s report**

10. **Review and assess all conclusions drawn from the evidence obtained from the examination and consider the implications on the report to be made under Regulation 2 of the 2007 Regulations.**

Guidance

10.1 The requirements as to the form and content of the examiner’s report are set out in the 2007 Regulations. These are produced in Appendix 2 - Reporting duties and examples of an examiner’s reports, together with illustrative examples of such reports. The examiner needs to consider carefully the conclusions drawn from the procedures undertaken, and the impact of these conclusions on the examiner’s report.

10.2 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:

- to keep accounting records in accordance with regulations made under section 11(1)(a) of the 1989 Act;
- to prepare accounts in accordance with regulations made under section 11(1)(b) of the 1989 Act;

Currently the Charity (General) Regulations 1990 are the primary regulations made in accordance with 11(1)(a) and (b) 1989 Act.

10.3 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 non-compliance with the relevant Regulations as to the form and content of accounts, this should be raised with the charity trustees to seek the necessary amendment to the accounts.

10.4 The examiner is also required to state whether or not any matter has come to attention 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. Of particular consideration in the review of Manx Registered charity accounts should be the statutory requirement for the charity to maintain a substantial and genuine connection with the Isle of Man (section 4 of the 1989 Act) and the impact that this may have on the charity as a going concern (see also Appendix 5 - Glossary of terms).

10.5 Where such matters have come to attention, then they should be brought to the attention of the charity trustees 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.

10.6 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
trusts of the charity;
• any failure to be provided with information and explanation by any past or present
trustee, officer or employee that is considered necessary for the examination; and
• in the case of accruals accounts any material inconsistency between the accounts and
the trustees’ annual report.

10.7 In order to identify any material expenditure or activities undertaken outside the objects of the
charity an understanding of the stated objects of the charity, as set out in its governing document,
is necessary. The guidance provided under Guideline 2 (Understanding the charity) will be of
particular relevance in obtaining a background understanding of the charity’s objectives and
activities. Small or immaterial levels of expenditure on purposes outside of the objects of the
charity 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 trustees of the charity 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.

10.8 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.

10.9 In the case of accounts prepared on an accruals basis any major inconsistency between the
accounts and the trustees’ annual report may give rise to misunderstanding. This should be brought
to the attention of the charity trustees with a view to the amendment of the discrepancy. Where
concerns still exist this must be stated in the examiner’s report.

Guideline 11: Reports to the General Registry

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

Guidance

11.1 If the examiner believes that one or more of the charity trustees have been responsible for
deliberate or reckless misconduct in the administration of a charity then a separate written report of
the matter should be forwarded to the General Registry. A reporting requirement would not arise
through mere inadvertence or error of judgement on the part of a trustee whilst endeavouring
honestly to carry out trustee duties. It is also unlikely that a reporting duty will arise unless a
material loss or misapplication of funds has resulted or could result.

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

11.3 The reporting duty relates primarily to the actions of the charity trustees. However, in
considering individual actions, the examiner must take into account the trustees’ overall
responsibilities of management and control.

11.4 Where a reporting duty arises the examiner should report the matter in writing to the "Finance
Unit" at the office of the General Registry. The examiner should state:
the charity’s name and registration number;
state that the report is made in accordance with Guideline 11 provided in this guidance;
describe the matter giving rise to concern and, where possible, provide an estimate of the financial implications; and
where the trustees are attempting to redress the situation a brief description of any steps being taken.

11.5 Examples of the types of matters that will give rise to a reporting duty are set out in Appendix 4 - Examples of deliberate or reckless misconduct.
Appendix 1 - Guidance on the selection of an examiner

Guidance from the General Registry to charity trustees on the selection of a person for appointment as an independent examiner.

1. The requirement for an independent examination

1.1 The following criteria determine eligibility for independent examination:

a) Whilst charitable companies are eligible for independent examination; they must also follow the provisions of the Companies Acts and Regulations made under them.

b) Unincorporated charities with a gross income in the current year exceeding £25,000 must have their accounts independently examined, or may choose to have the accounts audited.

c) All charities whose gross income is more than £250,000 in the accounting year must have an audit by a qualified accountant (see s.3 of the Interpretation Act 1976) or "approved person". Trustees cannot opt for an independent examination if this threshold is exceeded.

d) All charities whose governing document requires them to have an audit must do so. However, if this means a higher level of scrutiny is necessary than otherwise required by the 1989 Act the Trustees may wish to consider an amendment to the governing document to accord with the 1989 Act (provided that the governing document allows for changes).

1.2 The charity trustees should take steps to ensure that a competent examination takes place and they will therefore wish to consider most carefully the suitability of a prospective independent examiner.

1.3 Charity trustees are entitled to pay reasonable remuneration to an independent examiner for services rendered and if they are unable to obtain the services of a competent examiner on a voluntary basis, should be prepared to pay such remuneration and regard it as a proper charge on the assets of the charity.

2. The independent examiner

2.1 An independent examiner is "an independent person who is reasonable believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts who holds a prescribed qualification" (our emphasis).

3. An independent person

3.1 For an examiner to be independent that individual should have no connection with the charity trustees which might inhibit the impartial conduct of the examination.

3.2 Whether this connection exists will depend upon the circumstances of a particular charity but the following persons at least will normally be considered to have such a connection:

a) the charity trustees or anyone else who is closely involved in the administration of the charity;

b) a major donor to or major beneficiary of the charity; or

c) a close relative, spouse, partner, business partner or employee of any person who falls within sub-paragraph (a) or (b) above.
4. Requisite ability

4.1 The quality of evidence of ability which is required will depend upon the size and nature of the charity’s transactions. Charity trustees should consider taking independent references on the capability of the prospective independent examiner to carry out this function.

4.2 It is strongly recommended that the trustees of charities with gross assets in excess of £1,000,000 but below the compulsory audit threshold, should select a qualified accountant (or an individual with similar qualifications in charity finance at an appropriate level) to carry out the independent examination. In other cases where accounts are prepared on the accruals basis in accordance with regulations, a commensurate understanding of accountancy principles and accounting standards will still be needed.

5. Practical experience

5.1 Charity trustees should satisfy themselves that prospective examiners have practical experience relevant to the charity in question which might be by virtue of that person having:

- had an involvement in the financial administration of a charity of a similar nature; or
- acted successfully as an independent examiner on previous occasions for such charities; or
- relevant practical experience in accountancy or commerce.
6. Prescribed Qualification

The independent examiner must hold one of the following qualifications, as prescribed by the Charities Regulations 2007:

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<th>Governing Body</th>
<th>Qualification</th>
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<td>ACIS - Associate of the Chartered Institute of Secretaries</td>
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<td>Administrators</td>
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<td>ICSA - Institute of Chartered Secretaries &amp;</td>
<td>FCIS - Fellow of the Chartered Institute of Secretaries</td>
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<td>Administrators</td>
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<td>CIB - The Chartered Institute of Bankers</td>
<td>ACIB – Associate of The Chartered Institute of Bankers</td>
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<td>ICAEW - Institute of Chartered Accountants in</td>
<td>Diploma in Charity Accounting</td>
</tr>
<tr>
<td>England &amp; Wales</td>
<td></td>
</tr>
<tr>
<td>CIPFA - Chartered Institute of Public Finance and</td>
<td>Certificate in Charity Finance &amp; Accountancy</td>
</tr>
<tr>
<td>Accountancy</td>
<td></td>
</tr>
<tr>
<td>CIPFA - Chartered Institute of Public Finance and</td>
<td>Diploma in Public Audit</td>
</tr>
<tr>
<td>Accountancy</td>
<td></td>
</tr>
<tr>
<td>AIA - The Association of International Accountants</td>
<td>AAIA - Associate of the Association of International Accountants</td>
</tr>
<tr>
<td>AIA - The Association of International Accountants</td>
<td>FAIA - Fellow of the Association of International Accountants</td>
</tr>
<tr>
<td>AAPA - The Association of Authorised Public</td>
<td>AAPA - Associate of the Authorised Public Accountants</td>
</tr>
<tr>
<td>Accountants</td>
<td></td>
</tr>
<tr>
<td>IIA - The Institute of Internal Auditors UK &amp;</td>
<td>PIIA - Diploma in Internal Audit Practice</td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
</tr>
<tr>
<td>IIA - The Institute of Internal Auditors UK &amp;</td>
<td>MIIA - Advanced Diploma in Internal Auditing and Management</td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
</tr>
<tr>
<td>ACT – The Association of Corporate Treasurers</td>
<td>AMCT – Diploma in Corporate Treasury Management</td>
</tr>
</tbody>
</table>

7. Selection procedures

7.1 Charity trustees should discuss fully with the prospective examiner the work of the charity and their expectations. They should ensure that the prospective independent examiner is conversant with the General Registry recommendations to independent examiners and the nature of the independent examiners’ report prescribed by the Charities Regulations 2007.

7.2 Charity trustees should ensure that any written terms of engagement recognise and do not limit the examiner’s statutory duties.

7.3 Charity trustees who follow these guidelines and gain suitable assurances from prospective examiners and from any references can be satisfied that they have taken all reasonable steps to obtain a competent independent examination of their accounts for the period in question.
Appendix 2 - Reporting duties and examples of an examiner’s reports

Independent examination of charity accounts

An independent examiner who has carried out an examination of the accounts of a charity shall make a report, in accordance with Charities Regulations 2007, to the charity trustees which:

a) states his name and address and the name of the charity concerned;

b) is signed by him and specifies any relevant professional qualifications or professional body of which he is a member;

c) is dated and specifies the financial year in respect of which the accounts to which it relates have been prepared;

d) states whether or not any matter has come to the examiner’s attention in connection with the examination which gives him reasonable cause to believe that in any material respect-

   (i) accounting records have not been kept in respect of the charity in accordance with regulations made under section 11 of the 1989 Act; or

   (ii) the accounts do not accord with those records or have not been prepared in accordance with regulations made under section 11 of the 1989 Act;

e) states whether or not any matter has come to the examiner’s attention in connection with the examination to which, in his opinion, attention should be drawn in the report in order to enable a proper understanding of the accounts to be reached; and

f) where any of the following matters have become apparent to the examiner during the course of the examination, namely, that

   (i) there has been any material expenditure or action which appears not to be in accordance with the trusts of the charity; or

   (ii) any information or explanation to which he is entitled under regulation 8 below has not been afforded to him; or

contains a statement to that effect.
Example 1: Examiner’s unqualified report

Independent Examiner’s Report to the Trustees of "ABC" Trust, Isle of Man Charity Registration Number “123”

I hereby report on the accounts of the Trust for the year ended 31 December 2013, which are set out on pages 01 to 02.

Respective responsibilities of trustees and examiner

The trustees are responsible for the preparation of the accounts for the charity. The trustees consider that an audit is not required for this year under section 5 of the Charities Registration Act 1989 ("the Act") and that an independent examination is appropriate.

It is my responsibility to:

- examine the accounts; and
- state whether particular matters have come to my attention.

Basis of independent examiner’s report

My examination was carried out taking into consideration general guidance given by the General Registry. An examination includes a review of the accounting records kept by the charity 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 you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the accounts.

Independent examiner’s statement

In connection with my examination, I have reasonable cause to believe that (other than in relation to those matters disclosed in Part 2 below*):

(1) in all material respects the requirements

- to keep accounting records in accordance with regulations made under section 11(1)(a) of the Act;
- to prepare accounts in accordance with regulations made under section 11(1)(b) of the Act;

have been met; and

(2) there are no material matters to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

*Please delete/omit the words in the brackets if they do not apply

Signature:

Name:

Relevant professional qualification or body:

Address:

Date:
Example 2: Examiner’s qualified report - failure to disclose investments at market value

Independent Examiner’s Report to the Trustees of "ABC" Trust, Isle of Man Charity Registration Number “123”

I hereby report on the accounts of the Trust for the year ended 31 December 2013, which are set out on pages 01 to 02.

Respective responsibilities of trustees and examiner

The trustees are responsible for the preparation of the accounts for the charity. The trustees consider that an audit is not required for this year under section 5 of the Charities Registration Act 1989 ("the Act") and that an independent examination is appropriate.

It is my responsibility to:

- examine the accounts; and
- state whether particular matters have come to my attention.

Basis of independent examiner’s report

My examination was carried out taking into consideration general guidance given by the General Registry. An examination includes a review of the accounting records kept by the charity 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 you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the accounts.

Independent examiner’s statement

In connection with my examination, I have reasonable cause to believe that (other than in relation to those matters disclosed in Part 2 below*):

(1) in all material respects the requirements

- to keep accounting records in accordance with regulations made under section 11(1)(a) of the Act;
- to prepare accounts in accordance with regulations made under section 11(1)(b) of the Act;

have been met; and

(2) there are no material matters to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

*Please delete/omit the words in the brackets if they do not apply

Signature:

Name:

Relevant professional qualification or body:

Address:

Date:
Independent Examiner’s Report (Contd)

Part 2

Disclosures

In the course of my examination the following material matters have come to my attention to which, in my opinion, attention should be drawn:

The Trust held shares listed on a recognised stock exchange as a fixed asset investment with a market value at the balance sheet date of £x. These assets have been included in the accounts at their cost of £y, resulting in their value being understated by £z in the balance sheet. This matter gives me reasonable cause to believe that in this respect the accounts do not comply with the accounting requirements of the 1989 Act.
Example 3: Examiner’s qualified report - a matter to be brought to attention in the report

Independent Examiner’s Report to the Trustees of "ABC" Trust, Isle of Man Charity Registration Number “123”

I hereby report on the accounts of the Trust for the year ended 31 December 2013, which are set out on pages 01 to 02.

Respective responsibilities of trustees and examiner

The trustees are responsible for the preparation of the accounts for the charity. The trustees consider that an audit is not required for this year under section 5 of the Charities Registration Act 1989 ("the Act") and that an independent examination is appropriate.

It is my responsibility to:

- examine the accounts; and
- state whether particular matters have come to my attention.

Basis of independent examiner’s report

My examination was carried out taking into consideration general guidance given by the General Registry. An examination includes a review of the accounting records kept by the charity 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 you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the accounts.

Independent examiner’s statement

In connection with my examination, I have reasonable cause to believe that (other than in relation to those matters disclosed in Part 2 below*):

(1) in all material respects the requirements

- to keep accounting records in accordance with regulations made under section 11(1)(a) of the Act;
- to prepare accounts in accordance with regulations made under section 11(1)(b) of the Act;

have been met; and

(2) there are no material matters to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

*Please delete/omit the words in the brackets if they do not apply

Signature:

Name:

Relevant professional qualification or body:

Address:

Date:
Independent Examiner’s Report (Contd)

Part 2

Disclosures

In the course of my examination the following material matters have come to my attention to which, in my opinion, attention should be drawn:

The accounts disclose the receipt of a restricted grant of £x, of which £y was expended in the year. A concern exists that the unexpected balance of £z, which has been carried forward as a fund balance, may need to be repaid to the donor.

No other matter has come to my attention in connection with my examination to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.
Appendix 3 - Calculation of gross income

This is the total recorded income of the charity in all unrestricted and restricted income funds but not resources received as capital (endowment) funds.

The Charities Regulations 2007 defines gross income as:

\[
\text{the total recorded income of the charity from all sources including special trusts and funds released from endowments, but excludes:}
\]

- (a) resources being received as endowments;
- (b) gains from disposals of fixed assets and investments;
- (c) asset revaluation gains.

You should calculate income before deduction of any costs or expenses.

The calculation of income should include:

- donations (including covenants, gift aid donations and related tax reclaims) grants, gifts, legacies, and subscriptions (see note 1 below);
- gross proceeds from the sale of goods or services in furtherance of the charity’s objectives;
- gross proceeds from fund-raising and other activities undertaken for generating funds;
- investment income (including interest, dividends, related tax reclaims and rents); and
- other income, which will include when trustees decide to spend expendable capital. They should include the amount spent as "other income". This is because capital receipts are not included as income when they first come into the charity (see note 1 below).

The calculation should exclude the following from income:

- receipt of a loan by the charity;
- loan repayments to the charity;
- proceeds of sale of investments and fixed assets which are used for the purpose of furthering the charity’s objects ("functional fixed assets"); and
- gains or profits on disposal of investments and functional fixed assets.

Note 1: Any gifts or donations (including any tax related reclaims) etc which the donor expects will be, or may be, retained for investment by the charity are capital (endowment), and should be excluded. Such donations may include assets for investment or functional assets, e.g. land and buildings that are to be retained and used for a particular charitable purpose.
Appendix 4 - Examples of deliberate or reckless misconduct

Reports to the General Registry

Deliberate or reckless misconduct in the administration of a charity

Matters which give rise to a reporting duty primarily concern the improper use of charity assets which has resulted, or could result from the deliberate or reckless misconduct of one or more of the charity trustees in the administration of the charity. The following are examples of such misconduct.

1. Where a deliberate abuse of charity assets by one or more of the charity trustees has come to the examiner’s attention, a reporting duty will arise. Matters that require consideration will include:

   - evidence of false accounting by any charity trustee;
   - evidence of theft or misappropriation by any charity trustee; and
   - evidence giving rise to doubts as to the honesty or integrity of any charity trustee.

2. A breach of legislative requirement or an action contrary to the trusts of the charity may also need to be reported. However a reporting duty will only arise if information or evidence exists which indicates that such an action was taken or sanctioned deliberately or recklessly by a charity trustee. Moreover, a reporting duty would only arise if, as a result of such action, the charity suffered or was likely to suffer a material loss or misapplication of its assets. Matters that may require consideration include:

   - a material application of funds clearly outside the objects of the charity;
   - a breach of law or regulation that could jeopardise future activities or result in a material pecuniary loss (e.g. an attempt to evade any direct or indirect tax properly payable); and
   - an attempt by any charity trustee to obtain an improper pecuniary benefit for himself or another and/or to the detriment of the charity.

3. The charity trustees are responsible for the control and management of a charity’s affairs. Where there has been a gross neglect of these duties which has resulted or could result in a material loss of charity assets, consideration will need to be given as to whether this has arisen from deliberate or reckless misconduct by the charity trustees in the administration of the charity. Factors that will require consideration include:

   - a failure of the trustee body to meet or consider issues affecting the charity;
   - a gross failure on the part of the trustee body to keep accounting records;
   - evidence of indifference or recklessness on the part of a charity trustee or the trustee body – e.g. evidence that professional advice has been disregarded without due consideration or a failure to take action in the case of fraud within or affecting the charity.
Appendix 5 - Glossary of terms

Accounting policies

Those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the accounts through the recognition, measurement and presentation of assets, liabilities, gains, losses and changes or movements in funds. They are supplemented by estimation techniques where judgment is required in recording the value of incoming and outgoing resources and assets and liabilities. Accounting policies should be relevant and reliable and allow comparability and understandability of financial information presented in the accounts.

Accounting standards

Accounts which are intended to show a true and fair view must conform to certain standards issued by the Financial Reporting Council (FRC) or its predecessors, the Accounting Standards Board (ASB) and Accounting Standards Committee (ASC). These standards, with which professional accountants are expected to be familiar, are contained in 'Financial Reporting Standards' (FRSs). Soon after it started its activities, the ASB adopted the standards issued by the ASC, so that they also fall within the legal definition of accounting standards. These are designated 'Statements of Standard Accounting Practice' (SSAPs). Whilst some of the SSAPs have been superseded by FRSs, some remain in force.

The following document sets out the status of adoption of IFRIC Interpretations in current UK Standards:
Status of Adoption into UK GAAP of IFRIC Interpretations

Financial Reporting Standards in hard copy can be obtained from www.frcpublications.com

Accruals basis

This concept requires the effects of transactions and other events to be reflected, as far as possible, in the accounts for the period in which they occur, and not, for example, in the period in which any cash settlement is made. This concept is central to the recognition of balance sheet assets and liabilities.

Such accounts should be prepared by the trustees to show a "true and fair view". The accounts comprise:

- a statement of financial activities;
- a balance sheet; and
- notes to the accounts.

Such accounts should be prepared on a basis of accounting policies that enable the accounts to give a true and fair view and are consistent with accounting standards and the accounting concepts of going concern and accruals.

Approved persons

By virtue of section 5(9) of the Charities Registration Act 1989, "approved", in relation to any person, means approved by the First Deemster for the purpose of auditing or examining (as the case may be) the accounts of the charity in question; and an approval under this subsection may be revoked at anytime.
Charity trustees

Charity trustees are the people who, under the charity’s governing document, are responsible for the general control and management of the administration of the charity. In the charity’s governing document they may be called trustees, managing trustees, committee members, governors, or directors, or they may be referred to by some other title.

Form and content

Statutory requirements as to disclosures, analysis and information which should be contained in accounts.

Going concern

The concept requires the charity to prepare accounts on the basis that it will continue in operational existence for the foreseeable future. The going concern basis applies to accounts prepared unless the charity has ceased operational activities, is being wound-up or liquidated or the trustees have no realistic alternative but to wind-up, liquidate or cease its operational activities.

Governing document

The governing document of a charity is any document setting out the charity’s purposes and, usually, how it is to be administered. It may be a trust deed, constitution, memorandum and articles of association, will, conveyance, Royal Charter or other formal documents. The trusts of a charity are the provisions contained in the governing document(s) of the charity.

Letter of engagement

A letter addressed to the charity trustees from the independent examiner detailing the accounting responsibilities of the charity trustees and the statutory responsibilities of the independent examiner. It may also include matters such as fee arrangements, proposed timetables for the examination and details of any non-statutory work to be undertaken by the examiner. The purpose of the letter is to reduce misunderstanding and the content of any such letter should be agreed in writing with the charity trustees.

Material

An item is "material" if, taking all the circumstances into account, its inclusion or exclusion would be likely to influence a reader of the report and accounts as a whole or in relation to the context of which the items forms part.

Professional audit

An audit undertaken by a registered auditor who has to express his or her professional opinion on the accounts.

Receipts and payments basis

This phrase has been used to describe accounts that comprise of:

- a receipts and payments account; and
- a statement of assets and liabilities.

Such accounts do not purport to show a "true and fair view"; instead they should provide a factual summary of money received and paid during the year and a statement providing information as to the charity’s assets and liabilities at the end of the year.
Substantial and Genuine Connection

In order to be registered as a Manx Charity the institution was required to demonstrate a substantial & genuine connection with the Isle of Man (section 3 of the 1989 Act). In order to continue with its status as a registered Manx charity, the institution is required to maintain a substantial and genuine connection with the Isle of Man and failure to do so may result in the charity being removed from the charity register (section 4 of the 1989 Act) and potentially then committing an offence under section 1 of the 1989 Act if continuing to operate within/from the Island.

Whilst there is no current case law developing the concept of substantial and genuine connection, Section 3(3) of the 1989 Act states:

*an institution shall not be treated as having a substantial and genuine connection with the Island by reason only of the fact that the institution is a Manx institution.*

In actuality, a substantial & genuine connection can be established through the combination and weighting of several factors. The following is intended as general guidance for consideration:

- Notwithstanding section 3(3) of the 1989 Act, the institution being a Manx institution is an important contributory factor. The 1989 Act defines a Manx Institution as:
  - Constituted under the law of the Island;
  - Resident in the Island;
  - Administered in the Island;
  - Registered under Part XI of the Companies Act 1931;

- There being a minimum of two Manx resident trustees (or if the charity is registered with the Financial Supervision Commission as a Foreign Company, the registered agent must continue to be Manx resident);

- The amount of income raised by the charity from on-Island sources;
- The amount of donations/grants/direct benefit to on-Island beneficiaries;
- There being Manx resident employees of the charity;
- Isle of Man Land or property being owned by the charity.
# Appendix 6 - Table indicating eligibility requirements for independent examination

<table>
<thead>
<tr>
<th>Q1</th>
<th>Is the charity a company incorporated under the Companies Acts?</th>
<th>If Yes then</th>
<th>Is still eligible for independent examination under Charities legislation, however the requirements of Companies Acts still apply. If charitable company is an Audit Exempt Company as defined by the Companies Acts, then go to Q2.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If No then</td>
<td>Go to Q2</td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>Does governing document specify audit?</td>
<td>If Yes then</td>
<td>Not eligible unless governing document amended to allow independent examination.</td>
</tr>
<tr>
<td></td>
<td>If No then</td>
<td>Go to Q3</td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>Is an audit required by a donor?</td>
<td>If Yes then</td>
<td>Prudent to seek agreement from donor that independent examination is acceptable.</td>
</tr>
<tr>
<td></td>
<td>If No then</td>
<td>Go to Q4</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>Does gross income exceed £250,000 in the current year?</td>
<td>If Yes then</td>
<td>Not eligible for independent examination: an audit is required by statute.</td>
</tr>
<tr>
<td></td>
<td>If No then</td>
<td>Go to Q5</td>
<td></td>
</tr>
<tr>
<td>Q5</td>
<td>Is the gross income or total expenditure for the year less than £25,000?</td>
<td>If Yes then</td>
<td>Independent examination is not required, but trustees may choose it if they wish.</td>
</tr>
<tr>
<td></td>
<td>If No then</td>
<td>Independent examination is the minimum requirement, although trustees may still opt for audit.</td>
<td></td>
</tr>
</tbody>
</table>