

Charity regulator concerned by quality of external scrutiny of charity accounts

A [new study](#) published today by the Charity Commission, has found that only around half of charity accounts reviewed met the regulator's [external scrutiny benchmark](#). This follows reviews of the quality of charity accounts which show that auditors and independent examiners are failing to identify significant failings in charity accounts.

A sample of 296 charities' accounts have been assessed against a new external scrutiny benchmark developed by the Commission to determine whether a minimum standard of scrutiny by auditors and independent examiners has been met. Compliance with the benchmark does not amount to full compliance with the requirements of the Charities SORP; the benchmark is about ensuring that the basic requirements have been met, making today's findings particularly concerning.

Failings included incomplete reporting of related party transactions*; of 77 cases in which these were not properly disclosed, although in all likelihood an oversight, none were reported to the Commission by auditors or independent examiners. This raises additional concerns that the failure by trustees to manage conflicts of interest is also being under-reported.

Accounts reviewed by an auditor met the benchmark more frequently than those reviewed by an independent examiner. Although qualified examiners performed better, only 44% of accounts submitted by qualified examiners met the benchmark. Just 18% of unqualified examiners met the benchmark.

The regulator is working closely with ICAEW and ACCA to improve their members' awareness of charity reporting and accounting requirements. It has passed details of accounting practitioners that failed to meet the benchmark to their relevant professional bodies so that they can assist them. The Commission may also use non-compliance with the benchmark to raise formal complaints with professional bodies.

The Commission is making its [benchmark available on GOV.UK](#) and expects those scrutinising charity accounts to make use of it and trustees and those interested in charity accounts to be aware of it.

Nigel Davies, Head of Accountancy Services at the Charity Commission said:

We know from research we have carried out into public trust in charities that the public care deeply about transparency. It is therefore vital that charities are able to provide an accurate and clear picture of their finances.

External scrutiny is an essential part of the checks and balances

process that charity accounts go through and so it is disappointing that so many independent examiners and auditors appear to lack the necessary understanding of the external scrutiny framework.

Those that are getting this right are playing an important role in upholding charities' accountability to us as regulator, and the public. Clearly others are letting the profession and charities down. We are working closely with the accounting profession to tackle shortcomings and raise standards; I am encouraged by the commitments to work with us that have already been made.

The benchmark will also support the Commission's regulatory casework, by identifying external scrutiny that failed the benchmark. The regulator has already contacted 135 charities that filed trustees' annual reports, external scrutiny reports and/or accounts that failed the benchmark, and provided guidance to help them improve the quality of future trustees' reports and accounts.

Nigel Davies added:

I hope trustees will learn from this study, in terms of the expectations around reporting, and in ensuring they select an independent examiner that knows about and understands the requirements.

The Commission has updated its ['Independent examination of charity accounts: guidance for trustees \(CC31\)'](#), to make it more accessible to trustees. The guidance is aimed at helping trustees appoint an independent examiner with the right ability and practical experience to carry out a competent examination of the accounts, and allowing them to prepare appropriately.

The full [report of the study is available on GOV.UK](#).

Ends .

1. *Further detail on the reporting of related party transactions is available in [Accounts monitoring review: reporting of related party transactions in charity accounts](#), also published today.
2. Research published in July 2018 looked at the factors the public associate with a trustworthy charity. The findings are available on [GOV.UK](#).
3. Charities with incomes over £25,000 must arrange for either an audit or an independent examination of their charity's accounts and if the charity's income is more than £250,000 the examiner must be qualified. Charities with incomes over £1 million (and those with incomes over £250,000 and gross assets over £3.26 million) must have an audit. Most other charities can opt for an independent examination, unless an audit is required for another reason, such as by the charity's governing document.