

## 6. How to select and appoint an independent examiner

This section assumes that an audit is not required (refer to section 4.2 for the relevant criteria for determining what method of external scrutiny is required).

### 6.1 Selection of an independent examiner – formal requirements **For charity trustees**

The selection of a good independent examiner is important for a charity in fulfilling its regulatory requirements. However, the selection process is likely to be influenced by the individual charity's circumstances and operations. In this section, a number of different areas are outlined for consideration by charity trustees in selecting an examiner; the detail within each may differ between charities depending on individual circumstances. It is recommended that charity trustees consider the selection of an independent examiner at the earliest possible opportunity and do not leave such a decision until the time when the accounts are prepared.

In selecting an examiner, charity trustees should:

- determine the form of accounts to be prepared by the charity
  - Is the charity eligible to prepare receipts and payments accounts?
  - Are fully accrued accounts required?
- understand the required form of independent examination
  - Where receipts and payments accounts are prepared, the examiner needs to be a person with the required skills to carry out a competent examination
  - If fully accrued accounts are prepared, the examiner must be a professionally qualified person.
- determine what skills are needed
  - Charity trustees should always bear in mind that it is their responsibility to ensure that the accounts are prepared and externally scrutinised in line with the statutory requirements. Therefore, they should satisfy themselves that they understand these requirements and are aware of the skills that the examiner will need to carry out their duties. This may relate to the complexity of the charity's accounts or its operations. For example, if the charity engages in specialist activities, it may be advantageous for the examiner to have some relevant knowledge in that area so that they may understand the nature and type of transactions being entered into by the charity.
- consider independence requirements
  - As outlined in section 5.3, there are various aspects to consider in terms of independence of the examiner from the management and control of the administration of the charity – these should be carefully thought about by the charity trustees.

Charities may feel that they are unable to find someone willing to take on the role of independent examiner, particularly if they are seeking the service for free. However, it is important for charity trustees, and the general public, to understand the value of the work of the independent examiner and therefore to recognise that this may have a legitimate cost implication for the charity. The use of charitable funds for payment of reasonable independent examination fees is acceptable. This is an integral element of expenditure that is often necessary to ensure that the charity complies with the relevant legal requirements and is transparent and accountable to the public. Such costs would be categorised as ‘governance costs’ within the charity’s accounts.

Many charities also use their independent examiner to put their accounts in the statutory format in addition to carrying out the independent examination. However, charity trustees using OSCR’s Receipts & Payments Workpack may be able to prepare the accounts themselves, leaving the independent examiner to carry out only the external scrutiny. This could help to reduce costs, particularly for smaller charities.

## **6.2 Selection of an independent examiner – practical considerations**

### **For charity trustees**

As part of the selection process, the charity trustees may wish to use the following questions as a guide to assessing whether the person seeking appointment has the appropriate skills and abilities to carry out the relevant duties.

- Can we see a set of charity accounts that you have previously examined and were submitted to OSCR?
- How many Scottish charities do you act for?
- Are you familiar with OSCR’s Receipts and Payments Workpack? (receipts and payments accounts).
- Are you familiar with the Charities SORP? (fully accrued accounts).
- Which professional body are you registered with and what level of membership do you hold? (qualified independent examiner).
- Have you checked with your professional body that you are eligible to carry out the examination? (qualified independent examiner).

## Milestone 3 –

### Who should be our independent examiner?

#### 6.3 Accepting appointment as an independent examiner **For independent examiners**

Where an individual is approached to act as an independent examiner, they should ensure that they have the necessary knowledge of the 2005 Act, the 2006 Regulations, the SORP (if appropriate) and the charity itself to be able to carry out the examination.

They should also ensure that they comply with any relevant requirements of, or guidance issued by, any professional bodies of which they are a member, before accepting such an engagement. Individuals who hold membership of one of the professional bodies listed in section 5.2 should ensure that the status/level of their membership permits them to act as independent examiner of the accounts for the charity concerned.

Where an individual is a member of more than one professional body, compliance with the relevant requirements and guidance issued by all of those bodies should be ensured. They must have regard to the rules of the stricter body and not undertake an independent examination outwith those limits.

Where an individual has been asked to take on the role of independent examiner and there has been a previous examiner, there should be some form of correspondence between the previous and new examiner to ensure a smooth handover between them. This also allows any issues that may have been a factor in the previous examiner ceasing to hold office to be brought to the new examiner's attention.

The new examiner may consider asking the following questions of the previous examiner.

Has the previous examiner stopped acting for this charity because:

- they have retired or changed their line of business?
- the circumstances have changed such that the examiner cannot continue in that role e.g. the charity's income has risen above a key threshold, or the individual wants to become more involved in the charity which would compromise their independence?
- the charity has decided to terminate the existing relationship – perhaps as a result of cost or dissatisfaction with the service provided?
- they have fallen out with the charity? For example, has their advice been ignored?
- there has been a mutual parting of the ways?

Before accepting appointment, the prospective independent examiner may wish to use the following questions as a guide to whether they feel they have the relevant skills and abilities to carry out the examination.

- Do I have sufficient knowledge of the charity itself and the charitable sector?
- Are the accounts likely to be simple or complex?
- Do I have the necessary skills to understand the level of complexity of the accounting records?
- Am I independent of the charity trustees and the management, control and administration of the charity?
- If this is my first appointment as an independent examiner, do I feel able to carry out the work?
- Does my governing body authorise me to carry out the work? (qualified independent examiner).
- Are there any issues raised by the previous examiner that need to be considered? (if applicable).

## **Milestone 4 –**

### **Should I accept appointment as an independent examiner?**

Before accepting appointment, individuals may wish to consider whether it may be appropriate for them to take out professional indemnity insurance (PII) to cover them in their capacity as an independent examiner. This is normal practice for professionals acting in such a capacity and therefore potential examiners may wish to consider whether this would also be appropriate for them.

OSCR's view is that it is difficult to foresee situations where it would be necessary for non-professional independent examiners to need professional indemnity insurance as it is hard to envisage where there may be third party exposure or significant risk arising from reliance placed on a set of receipts and payments accounts.

However, there are no set rules and, in highlighting this issue here, OSCAR does so to bring the matter to the attention of the reader to enable an informed choice to be made.

## 6.4 Recording the appointment of an examiner

### For charity trustees and independent examiners

Once the charity trustees have chosen an independent examiner, there should be a formal record of the agreement between the charity trustees and the examiner to ensure that both parties understand the services to be provided and the extent of the duties and rights of both the charity trustees and the examiner.

One method of formalising the relationship between the charity trustees and the independent examiner is by way of an 'engagement letter'. This is most commonly used by independent examiners who are providing such services on a commercial basis – that is, they are charging a fee for such work – and will usually take the form of a formal letter issued by the independent examiner. Alternatively, a letter can be issued by the charity trustees.

An 'engagement letter' is usually written by the person who is being engaged to act as an independent examiner. This type of letter is addressed to the charity trustees and sets out the services that the independent examiner will provide, their fee and the duties that they have, as an examiner, under the relevant legislation. The letter should include details regarding the timetable for the independent examination and a schedule of the work to be carried out. The examiner will prepare and sign two copies of the letter and send them to the charity trustees for consideration and signing. Thereafter, one copy will be returned to the independent examiner and the other retained by the charity trustees for their own records.

It is recognised that where a person provides independent examination services to a charity for no charge, it is more likely that a simple letter of appointment or email exchange will be used. This is essentially a written communication that agrees the terms of appointment. Charity trustees are encouraged, as a matter of best practice, to actively consider the merits of formalising their relationship with the independent examiner by having a method of setting out the services that are expected via a letter of appointment. This will enable both parties to understand and appreciate the extent of the work and duties involved in the independent examination process.

For smaller charities, where the examiner is an unpaid volunteer for example, an email could be adequate if the charity trustees and independent examiner feel that this is appropriate.

To assist in the preparation of a letter of appointment, an example is provided at Appendix 5.