

# Guide for Auditors and Independent Examiners

## 1. The Royal British Legion Audit Requirements

Branches of the Legion are not independent charities as they are all constituted under the same Royal Charter and Registered Charity Number. Nevertheless an independent examination or, in some cases, a full audit is still required to:

- a) comply with Regulation 59 of the Royal Charter;
- b) comply with the internal control procedures of the Legion; and
- c) provide comfort to the external auditors of the Legion who will give an audit opinion on the consolidated financial statements, incorporating all branches.

### **Audit Threshold**

The Board of Trustees has set the following criteria:

- a) A branch must appoint an auditor to audit the Branch Accounts if either:
  - at the end of the financial year, the total value of its assets (excluding Branch Property Trust and legacy trust funds held at head office, and funds held in the Branch Funds Initiative (BFI)) exceeded £200,000, or
  - in the preceding financial year, its total income or total expenditure exceeded £250,000.
- b) A branch which does not meet the above criteria must instead arrange an independent examination of its accounts.

### **Who can carry out an independent examination?**

An independent examination can be carried out by:

- an individual trained on the Legion's Independent Examiners' course or another individual with a suitable background in finance who is not a member, officer or Committee member of the Branch and not a related party thereof (see below), or
- a qualified accountant, being a member of one of the bodies listed below, who is not an officer or Committee member of the Branch and not a related party thereof.

Charity Commission guidance states "an independent examiner must obviously be competent for the task that he or she is to do and they must be familiar with accounting methods, but need not be a practicing accountant. We have in mind people such as bank or building society managers, local authority treasurers or retired accountants. They would all be suitable as independent examiners."

However, where the Independent Examiner is not a CCAB qualified accountant, they are limited to only examining branches with gross income of up to £30,000.

A related party cannot be appointed as an Independent Examiner. The definition of a related party is:

- a major donor to or beneficiary of the Branch; or
- The child, parent, grandchild, grandparent, sibling, spouse, civil partner, business partner or employee or a Branch Officer or Committee member or of someone who is a major donor to or beneficiary of the Branch.

### **Who can carry out an audit?**

An auditor must be a member of one of the following professional bodies, although they need not be a 'registered auditor' as defined by the Companies Act:

- Institute of Chartered Accountants in England and Wales (ICAEW), Scotland (ICAS) or Ireland (ICAI);
- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Association of Authorised Public Accountants (AAPA)
- Association of Accounting Technicians (AAT)
- Association of International Accountants
- Chartered Institute of Management Accountants (CIMA)
- Institute of Chartered Secretaries and Administrators (ICSA)
- Association of Charity Independent Examiners

## **2. Terms of Reference for Audit or Independent Examination**

### **a. Audit**

- a) An accountant appointed to audit the accounts of the branch should complete an audit in accordance with Auditing Standards issued by the Auditing Practices Board. The auditor will issue an Audit Report to the Branch Committee in the format prescribed by their professional standards which will be attached to the accounts. This report must state that an audit has been carried out and must include an audit opinion. Comments to the effect that they have only prepared the accounts are not allowed.
- b) Where a professional firm agrees with the Branch Committee that the branch is below the audit threshold given above, the firm should complete and sign the 'Report of the Independent Examiner'.
- c) The Royal British Legion gratefully acknowledges the contribution of the accounting profession in carrying out Branch audit assignments at below commercial fee levels. Naturally we wish to foster this approach and should any accountant wish to discuss these terms of reference, they should contact the Financial Accountant – Membership on 020 3207 2306

**b. Independent Examination - Qualified Accountants**

- a) Qualified Accountants appointed to carry out an independent examination of Branch accounts should follow the guidelines of the Charity Commission contained in their leaflet CC32 "Independent examination of charity accounts: examiners" (available free of charge from the Charity Commission or on their website).
- b) Branch accounts are prepared on a Receipts and Payments basis, therefore Direction 7 and parts of Directions 8 and 9 are not applicable. An examination is still required, however, when income is less than £25,000. Any report under Section 6 should be sent to the Board of Trustees of the Legion, **not** the Charity Commission.
- c) A Letter of Engagement defining the respective responsibilities of Trustee and Examiner should be provided by the accountant and signed by both parties. The examiner should sign the Report of the Independent Examiner at Section 8 of the Annual Branch Accounts form.

**c. Independent Examination - Examiners with Other Qualifications.**

Examiners without formal accountancy training may be used to carry out an Independent Examination where the income of the Branch is below £30,000. The Charity Commission leaflet CC32 referred to above provides the best guide to performing an independent examination of a charity. However, examiners without a formal accounting training may prefer to follow the more specific programme set out below.

**a) Responsibilities:**

It is the responsibility of the Branch officers to maintain books and records and to prepare the accounts. It is the duty of the examiner to review these records and express an opinion on them.

The accountant may help prepare the return from the accounting records as well as conduct the examination. However the Branch Officers remain responsible for the content of these accounts.

The Independent Examiner should issue a Letter of Engagement to the Branch Officers confirming the respective responsibilities.

**b) Audit Threshold**

Check that the level of branch income and expenditure and the value of branch assets falls below the level which would determine that a full audit was necessary under Section 1 of this guide, and that they are therefore able to proceed with an independent examination.

**c) Understanding the Branch and the Legion**

The examiner should obtain an understanding of the Legion's constitution, branch organisation, branch accounting systems, the size and complexity of the branch and the nature of its income, expenditure, assets and liabilities. In particular, the examiner should be familiar with:

- The Branch Finances part of the Membership Handbook (section 3.1.9)
- Minutes of Branch Meetings
- The Annual Branch Accounts form and associated guidance
- This guidance on Independent Examination

**d) Accounting Records**

The examiner should review the accounting records and be satisfied that they are adequate for the size and complexity of the branch.

- there should be an up to date cash book (or Branch Account Book); all branch accounts, funds and deposits should be recorded in the books;
- all entries should be supported by invoices, receipts or vouchers;
- vouchers should be approved by an officer of the branch independent of the Treasurer;
- the cash book should be ruled off and reconciled to the bank account on a regular basis - at least at the annual accounting date;
- there should be adequate procedures with respect to the management of the bank account e.g. cheques to require two signatures, bank statements checked to books of account, bank reconciliation reviewed by a Branch Officer independent of the Treasurer; and
- larger branches may maintain double entry in a ledger rather than an analysed cashbook.

**e) Detailed checking and comparison with accounting records**

Detailed checks should be conducted to confirm that:

- cash books are totalled, balanced and reconciled to balances on bank statements;
- bank statements are available to support the year end balances for all bank accounts;
- bank balances in the branch's cash book agree with the balances at section 2 of the Annual Branch Accounts form;
- there are no transfers recorded in the cash book to or from bank accounts which are not part of the branch accounts;
- amounts are correctly extracted from the books and are appropriately recorded in the correct income, expenditure and asset sections of the Annual Branch Account Forms;
- amounts are correctly recorded in the various sections of the form and that in particular income and expenditure are correctly analysed between the various categories available;

- there are no transactions or balances within the accounts relating to RBL Clubs or member social funds;
  - no honorarium or staff costs have been incurred. Any such payments identified by the examiner should be reported in the report;
  - transactions with other parts of the Legion are separately identified and included within an appropriate line within sections 3 and 4 of the accounts (see part 3.3 of the Annual Branch Accounts Guide for further details);
  - donations are separately listed, are within the objects of the charity and any donations to other non-Legion charities are pre-authorized by the Deputy Director General and Director of Operations.
- f) The Examiner should confirm that all sections total correctly and that the net income/expenditure total for the year (line 49 of the accounts) matches the total movement on bank accounts (line 11).
- g) The Examiner should make reasonable enquiries to determine that all funds and all assets and liabilities of the Branch are recorded in the accounts.
- h) The Examiner should confirm that the reason stated for reporting any restricted funds is accurate.

#### d. Analytical Procedures

Carry out a Review as follows:

- a) ensure that the figures for prior years (i.e. opening balances) are correctly extracted from the prior year's accounts and recorded on the form;
- b) obtain adequate explanations for any unusual movements between the current and prior year's figures;
- c) confirm that all expenditure is consistent with the charitable objects of the Legion;
- d) review third party documents, vouchers and minutes of the Branch and ensure that the accounts are consistent with the activities described and any unusual events have been disclosed at section 6 of the accounts; and
- e) to the extent possible, verify that all relevant branch assets are included and that the branch has proper title to the assets.

**Note:** The accounts should exclude the value of property held under Corporate Trusteeship and BPT and legacy trust funds on deposit at Head Office.

#### e. Disclosures

The examiner should check for completeness and adherence to instructions in the Annual Branch Accounts Guide. In particular, the examiner should ensure that the following matters are included on the form at section 6 if there is any evidence that there are matters to disclose:

- Any transactions with Branch Officers or parties connected to Branch Officers (other than normal travelling expenses which are independently authorised).
- Information regarding any legacies received locally.
- Information about errors identified in previous years' returns.
- Explanations for large income or expenditure items, or significant movements in branch funds.
- Information about any charges on assets, mortgages or loans.
- Information about any branch funds which have been lost or written off, and the reasons for this.
- Information about any alleged, suspected or actual fraud identified, or any other known or suspected breach of legal requirements or Legion policy.

Examiners should also check that the Branch Certificate is completed at section 1 and signed by the relevant Branch Officers, including the Officer responsible for preparing the accounts (usually the Treasurer).

#### **f. Evidence of Examiner's Work**

The examiner must keep a record of the work undertaken with schedules of any relevant information extracted and explanations obtained from the Branch Officers which have been used to support the examiner's opinion of the accounts. The examiner should retain one copy of the final accounts after signature.

#### **g. Examiner's Report**

On completion of the examination the examiner will:

- a) Discuss the results with the Branch Officers to allow them to correct any errors and amend procedures for the future.
- b) Sign the Report of the Independent Examiner. The Independent Examiner should state whether or not there are any matters to be brought to the attention of the Board of Trustees. Examples may include:
  - items of expenditure outside the objects of the Charity
  - the fact that information has not been provided by the Treasurer upon reasonable request
  - proper records have not been kept
  - significant differences between the accounts and the supporting records
  - not all entries were supported with invoices, receipts or vouchers
  - not all vouchers were approved by an officer of the branch independent of the Treasurer
  - Branch social activities have been included within the accounts, and/or there is evidence that they are not self-financing or operated at a deficit

If the examiner believes that one or more of the Branch Officers have been responsible for deliberate or reckless misconduct they should report directly (and

in confidence) to either the National Chairman or the Chief Financial Officer of the Legion at 199 Borough High Street, London SE1 1AA.

Examples would include:

- a) Deliberate abuse of Legion assets including theft or misappropriation.
- b) Serious breach of legislative requirement such as material application of funds clearly outside the objects of the Legion
- c) Serious neglect of the duties of Branch Officers to effectively manage the branch.

### 3. Independent Examination – Planning Checklist

This is an example of a checklist of items that an Independent Examiner should consider whilst carrying out an assignment.

1. I am not aware of any reason why I should not accept/continue with this appointment

Consider:

- am I independent?
- do I have the ability and practical experience for a branch of this complexity?
- has my appointment been approved by the branch?
- is the branch aware of my responsibilities – possibly by signing and returning a letter of engagement?

2. The financial statements or accounting records confirm that the branch's gross income, gross expenditure and total assets meet the criteria for Independent Examination

3. I am not aware of any specific requirements for an audit to be carried out, for example, in any special trusts associated with the branch or as a condition of any grants made to the branch, that prevent me carrying out an independent examination

4. For my first examination of this branch, I have obtained background information on the branch, how it is organised, the extent of its activities, and the nature of its income, expenditure, assets, liabilities and funds. I have read the relevant sections of the Royal Charter and branches' duties and responsibilities.

For subsequent years, I have checked and updated any details from the previous year.

5. I have described in brief on a separate sheet the accounting records maintained by the branch, which I have examined, and the key financial controls operated.

Name of independent examiner:

Date:

#### **4. Independent Examination – Documentation Checklist**

##### **Checklist of documentation required to conduct an Independent Examination**

- Branch Certificate at section 1 already signed by Branch Officers
- Ledger/Account Book/Cash Book/Computer print out
- Bank statements (1 July – 30 June) for all accounts
- Bank reconciliations for the period (prepared at least quarterly)
- Full list of stock held (badges, wreaths etc.)
- Minutes of Branch meetings for the period under examination
- Branch Accounts/Income and Expenditure Forms for previous year
- Investment statements (if applicable)
- Building society pass book (complete to 30 June – if applicable)
- Paying-in books
- Cheque books + copy of bank mandate
- Receipts and payments vouchers
- BFI statements
- Register of assets held by the branch
- Signed copy of 'Authority to Disclose Information Forms' for each bank giving the account(s) held by the Branch
- Signed copy of 'Authority to Disclose Information Forms' for each investment company holding Branch investments (if applicable)
- Complete and signed MS1 form

## 5. Independent Examination – Work Programme

The Branch needs to ensure that all records are up-to-date and properly filed. This will help maintain adequate control, accuracy and also save on audit/examination fees.

*If any of the answers to these questions is 'no', full details of problems encountered and how they have been resolved should be included on a separate sheet. The issues should be discussed with the Branch Officers, and, if they cannot be resolved to the satisfaction of the examiner, should be included in the Report of the Independent Examiner at Section 8 of the Annual Branch Accounts.*

	Completed Satisfactorily	
	YES	NO
<b>Financial statements</b>		
1. Agree figures in the Annual Branch Accounts to the branch's main accounting records (e.g. cash book).	<input type="checkbox"/>	<input type="checkbox"/>
2. Obtain other information like bank statements to confirm balances, minutes of Committee meetings, The Royal Charter, list of committee members, a copy of the latest bank mandate, property deeds, property lease details, membership information.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider if the branch has adequately disclosed the transactions or interests that branch members may have with the branch.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Accounting records</b>		
4. Select a sample of entries from the main accounting records and trace them back to any supporting prime books that exist (e.g. cash book, petty cash book).	<input type="checkbox"/>	<input type="checkbox"/>
5. Select a sample of entries from any of these prime books and trace them to the main accounting records.	<input type="checkbox"/>	<input type="checkbox"/>

*The items selected under 4 and 5 above should be recorded on a supporting working paper and the prime record to which they were checked or from which they were selected should be noted. These tests mirror each other but it is important that different items are selected for each test.*

6. Test check the accuracy of some of the accounting books and records (does the cash book balance?).	<input type="checkbox"/>	<input type="checkbox"/>
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*State on a separate sheet which records were checked and the sections covered by the checks.*

<b>Review of Annual Branch Accounts</b>		
7. Consider the branch's income, expenditure, assets and liabilities as shown in the Annual Branch Accounts. Where there are unexpected fluctuations or inconsistencies, obtain explanations from the branch.	<input type="checkbox"/>	<input type="checkbox"/>
8. If any issues outside the scope of the independent examination have been identified that suggest the financial statements are misstated, the issue/s has/have been included in the Independent Examiner's report (If N/A, tick "Yes")	<input type="checkbox"/>	<input type="checkbox"/>

*If 'Yes' include details on a separate sheet and state how they have been resolved.*

		Completed Satisfactorily	
		YES	NO
9.	Review minutes of branch and other relevant Committee meetings:		
	<ul style="list-style-type: none"> <li>• identify major events, plans or decisions and changes in Branch Officers and members and ensure they have been properly reflected in the accounting records, reports and the Annual Branch Accounts;</li> <li>• determine if the branch has financed activities outside its arena as outlined in the Royal Charter</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
10.	Examine the year-end bank reconciliation (and, for more complex branches, any other control accounts) to ensure they do not include any unexpected or unusual items. Ensure the bank accounts are in the name of the branch and balances agree with the accounting records.	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Transaction testing</b>		
11.	Select a sample of receipts and payments from the main accounting records and cross check the details to supporting invoices, vouchers or other similar documentation to ensure that the transactions are valid under the powers of the Branch.	<input type="checkbox"/>	<input type="checkbox"/>
	<i>Note (on a separate sheet) which transactions were examined</i>		
	<b>Reporting</b>		
14.	Prepare a report to the branch and express your opinion at section 8 of the Annual Branch Accounts.	<input type="checkbox"/>	<input type="checkbox"/>
15.	Matters identified during the course of the work which suggest legal, accounting or similar problems should be carefully considered. If they represent significant instances of deliberate or reckless misconduct in the administration of the Branch, then a written report should be made to the Chief Financial Officer, Legion Head Office, 199 Borough High Street, London, SE1 1AA.	<input type="checkbox"/>	<input type="checkbox"/>