Reporting matters of material significance to a UK charity regulator

Invitation to comment issued in May 2016

Comments from ACCA
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Further information about ACCA’s comments on the matters discussed here may be obtained from the following:

Richard Martin
Head of Corporate Reporting, ACCA
Telephone: +44 (0)20 70595748
Email: richard.martin@accaglobal.com
ACCA welcomes the opportunity to provide views in response to the invitation to comment from the charity regulators in Scotland, England & Wales and Northern Ireland. This has been done with the assistance of the members of ACCA’s Charities Technical Advisory Group who have considered the questions raised, and their views are reflected in the following comments.

SPECIFIC COMMENTS ON QUESTIONS RAISED

Q.1 The list of material matters of significance which must be reported was developed to aid auditors and independent examiners in understanding their duties under the legislation. Do you agree that it is useful to have a list of matters which must be reported? If not, what means do you suggest of helping auditors and independent examiners meet their statutory duty to report?

We agree that it is helpful both to have a list of matters to report and also that this has been developed to apply in all three jurisdictions.

Q.2 Do you agree that the descriptions of the matters to be reported are clear and helpful? If not please advise where further clarity is required.

We agree that the descriptions are generally clear, but we have a few comments below.

We note that no definitions of ‘material’ or of ‘material significance’ are included. It would be helpful (especially for the ‘lay’ independent examiners) to cross refer to any more detailed guidance which may have been provided (as envisaged by paragraph 7.1). For example the Charity Commission has guidance on independent examination which includes significant amplification and definitions.

The role of Matter 6 might be clarified. Matters 1,3 and 4 for example will cover breaches of specific legislative requirements. Our interpretation of Matter 6 is that it is presumably a ‘sweeper’ clause covering all law and trusts, but which is restricted to actual breaches rather than the risk of breaches.
Some of the Matters are prefaced by “During the audit or examination .. “ but others are not. Why were Matters 1,2 and 6 for example not so prefaced?

To minimise the potential for misunderstandings, the guidance should be reviewed and align itself as far as possible with the language in auditing standards (ISA 250 – “Consideration of laws and regulations in an audit of financial statements”). For example, auditing standards do not use “… evidence suggesting …” Instead, this could refer to the auditor’s responsibilities in relation to identified or suspected non-compliance with laws and regulations. We consider that the Financial Reporting Council as the audit standard setter could assist the regulators in that review.

Q.3 The terminology in Matters 1 and 2 has been amended to agree to that used in the Statement of Recommended Practice for Charities (SORP), do you agree that this is helpful for consistency? If not please advise what terminology you would recommend and why?

As Matters 1 and 2 relate directly to the accounts it would be appropriate to use ‘material’ to align with the SORP.

Q.4 Matter 3 has been expanded to specifically include the charity’s bank account in the areas where funds could be used for money laundering. This is based upon our experiences where the charity’s bank account has been used to move money. Do you agree that the expanded definition is helpful? If not please advise what alternative definition you would use.

We agree that the reference to the bank accounts is helpful to make clear that the issue is not avoided by there being no net impact on the funds of the charity.

Q.5 Matter 4 is now applicable to Northern Ireland and has been expanded to exclude the need to report any matters that were related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998. Do you agree that the matter should be expanded in this way? Do you consider that the proposed wording is appropriate? If not please explain your answer and advise what alternative wording you would use.
We agree with the amendment made.

Q.6 Matter 8 from the previous list of matters to be reported has been removed. This is due to the fact that this led to auditors and independent examiners advising the Regulator where they had simply ceased to hold office. Where ceasing to hold office occurs due to a reportable matter this should be covered by an alternative matter. Do you agree that this matter should be removed? If not please advise why it should be retained?

Regulators need not necessarily be informed of all cases where auditors or examiners cease to hold office. The other Matters will cover the cases where reports would be needed which may also result in their ceasing to hold office. On the other hand more emphasis needs be given to the position that resignation is not a way of avoiding the obligation to report. The definition of ‘during the audit/examination’ does so but this might not be sufficiently prominent.

Q.7 Matter 9 has been introduced to ensure that auditors and independent examiners report to the charity regulator as soon as they issue a modified audit opinion (including any emphasis of matter) or qualify their independent examiner’s report and notify the regulator. Separate notification enables the matter to be considered for regulatory action and avoids any delay arising from awaiting the filing of the charity’s accounts. This will be useful to the regulators as there have been a number of instances where matters have not been reported separately but simply included when the auditor’s or examiner’s report is qualified. Do you agree that the inclusion of this within the matters of material significance will assist auditors and independent examiners? Please give your reasons for this response.

We agree that the prompt reporting of materially significant issues should be promoted.

We consider it important that the regulators make it plain whether it is intended that all qualifications of whatever nature should be automatically reported to the regulator or whether there might be some audit/examination qualifications which might not in the end be judged of material significance to the regulator. For example we are aware of some ‘standard' qualifications for example where investment properties have been stated at cost not fair value on the grounds of expense, or around the unquantified
pension obligations arising from transfer of staff from public sector. Also some ‘lay’ examiners will be less familiar with the concept of materiality and may choose to include emphases of matter for items that would not be regarded as material by a professional examiner.

**Q.8 Auditors regularly offer guidance and areas for improvement to their clients. We recognise the important role this plays in ensuring charities meet their regulatory requirements. Where charities fail to act upon the recommendations made by their advisors this may be an indication of governance concerns and should be reported to the regulator. Do you agree that this matter should be included as a reportable matter? If not please provide your reasons for this.**

We do not think Matter 10 should be included. Management letters sent by auditors or examiners will include items which have not been of sufficient materiality to warrant a qualification of their opinion and would not in our view be of material significance to the regulator.

We agree that management letters should be considered by auditors/examiners in subsequent years. However the items of material significance that might emerge should be covered by other Matters. Consideration of issues raised in previous management letters should be included as part of the more detailed guidance referred to in 7.1 rather than as a separate Matter always to be reported. We are concerned that otherwise some auditors and examiners may be deterred from raising issues in management letters by the risk that this might lead to a report to the regulator in the following year. Also the regulators might be inundated by a host of reports of immaterial issues.

**Q.9 It is important for public trust in charities to ensure that all relationships are properly managed in accordance with charity law and where required disclosed in order to maintain public trust and confidence. Matter 11 highlights the need for auditors and independent examiners to report to us where they believe that relationships are not managed well or are not correctly highlighted to users of the accounts. Do you agree that this should be included as a matter of material significance? If not, please provide your reasons why.**

While we are concerned with Matters 9 and 10 above whether there is a threshold of material significance which might be different from qualifications, emphasis of matter or
inclusion in management letters, in terms of management of conflict of interest it is difficult to think of cases where reporting would not be appropriate. So we support Matter 11 in that regard.

Disclosure of related party transactions is more difficult. These are required by the SORP and accounting standards, but are not specifically required for receipts and payments accounts. Examiners of such accounts (who may often be ‘lay’ examiners) should be given clarification on whether these transactions should always be reported to the regulator if not disclosed (voluntarily) in the accounts.

Q.10 While the reporting requirements have not changed significantly we have increased the areas identified as matters of material significance to provide clarification for those with reporting responsibilities. Do you agree that this aids clarification and is not a significant increase in regulatory burden? If not please provide your reasons for this.

For the auditor and examiner to consider reporting a matter to the regulator can involve considerable time, in some cases involving debate with the charity’s trustees, and then drafting the form that should take. The revised guidance proposed here would extend those matters potentially and so the proposals do form an increase in regulatory burden. It is therefore important to minimise this by not requiring minor matters to be reported as we have noted is a risk with the proposed Matters 9 and 10.

Q.11 In addition to the matters identified as reportable, we have received feedback that some further guidance around reporting requirements, including more practical examples of reporting matters of material significance would be useful. Do you agree that further guidance in this area is required and if so should this be provided by the regulators and/or included in auditing standards?

Additional guidance for auditors and examiners would be helpful and is foreseen by paragraph 7.1. For both examiners and auditors this will probably be most readily provided by the regulators, but as noted we consider that the Financial Reporting Council as the audit standard setter should be assisting with this. For that guidance examples of what not to report may be as helpful as examples of what to report.