

Independent examination of charity accounts: directions and guidance for examiners

Invitation to comment issued in June 2016

Comments from ACCA

05 September 2016

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ACCA welcomes the opportunity to provide views in response to the invitation to comment from the Charity Commission. This has been done with the assistance of the members of ACCA's Charities Technical Advisory Group who are a group of members who are involved with working in or for charities. They have considered the questions raised, and their views are reflected in the following comments.

GENERAL COMMENTS

Overall we are very supportive of the Directions and of the supporting guidance to set out what is expected of an Independent Examination (IE). We do have some suggestions and improvements which are set out below in response to the specific questions raised in the invitation to comment.

We are very aware that this document is aimed at both the paid professionally qualified examiners and also the 'lay', sometimes unpaid, examiners of the smaller charities. The lay volunteers may only do an examination on a one-off basis or only occasionally. They would need to absorb and understand the contents of this 68 page guidance. We have in our specific comments below made some suggestions as to how the language may be simplified and how the document might be shortened and we consider it would be very helpful to these examiners in particular if that could be achieved.

Further to this it may be worth exploring the possibility of producing separate versions of the document for the examination of receipts and payments accounts on the one hand and of accruals accounts on the other.

We think a separate Direction is needed which requires examiners to ask themselves whether they have the necessary skills, knowledge and experience to carry out the examination. This is only covered by Appendix 3 which points to examiners without accountancy training restricting themselves to examining receipts and payments accounts. The further level of competence to examine consolidated accounts should also be noted.

Among the current Directions examiners are not required to consider the adequacy of the internal controls of the charity. We recognise this would be a significant addition to what would be expected of examiners and take the expectations closer to that of auditors. It seems arguable that this could be required (or recommended) especially of the professionally qualified examiners of the larger charities (recently subject to audit requirements) but now within the scope of IE.

IE is viewed as a form of assurance though one which gives less assurance than an audit. We note, however, that it does not fit entirely within the international framework standard on assurance engagements ISAE 3000. Nor does it conform entirely to an Agreed upon Procedures engagement. We consider that there may be merits in better aligning IE with the international framework in a future revision of the IE Directions and Guidance.

SPECIFIC COMMENTS ON QUESTIONS RAISED

Q.1 Do you agree that the proposed Directions are phrased in a way which is clearer to understand and follow? If you answered no, please explain how the phrasing of the Directions can be improved.

We agree.

Q.2 Do you agree that the 3 additional Directions are appropriate? If you answered no, please explain how the phrasing of the Directions can be improved.

We agree with the three new Directions – Direction 2 on conflicts of interest for the examiner, Direction 7 on conflicts of interest in the management of the charity and Direction 9 on the going concern issue.

We suggest for consistency with the others that Direction 9 should start “The examiner must consider any assumptions ... “

Q.3 In reviewing the other Directions, do you agree that they are improvement over the existing Directions and what changes (if any) would you recommend? Please give your reasons why.

The title of Direction 11 might be better stated as “Review the accounts and identify items for further explanation or evidence”.

The order of Directions 3 and 4 would be more logically reversed with the planning before the recording.

Q.4 Do you agree with the contents of the guidance which follows each of the Directions and what changes to the guidance (if any) should be made and why? Please give your reasons in support of your suggestions

We have a number of comments and suggestions for improvement set out below referenced to the relevant paragraph number of the guidance.

2.4 Given the significance of control of, or significant influence over, the charity it would seem reasonable to extend the category C4 (business partners) to C5 and C6 as well.

2.5 We are concerned that with the small scale of some of the charities involved with IE and that it may be done by volunteers who are also members, that the final sentence may exclude most members. In many cases committees may have little or nothing to do with the finances or administration of the charity. We note of course that there may be scope for small charities to appoint members of one to be examiners of another on a reciprocal basis. However strict application of the guidance may otherwise mean that some small charities will be obliged to pay for professional examiners.

3.1 We think a reference to the recording in the working papers of the analytical review as a new bullet point between the existing 5th and 6th bullets would be appropriate.

4.1 Whereas it may be helpful to consider at a planning stage (under Direction 4) whether there are potential issues to report to the regulator, it surely also needs to be considered at the final reporting stage and so should also appear under Direction 13.

5.5 The first bullet point refers to records being “kept updated during the year”. This requirement seems to go beyond the legal requirements set out in paragraph 5.8 and might give rise to uncertainty as to what keeping up to date involved. It is also difficult to see what is required of the examiner – spot checks during the year? It would be better if

the requirement is simply that the records are up to date at the end of the reporting period.

6.3 to 6.5 This guidance should be reconsidered as to whether all of this book-keeping terminology (nominal ledgers, books of prime entry, journal entries etc.) is appropriate for

- A computerised society where records are likely to be by way of accounting packages or be kept as spread sheets
- Voluntary examiners with no accountancy training

Bank reconciliations and payroll summaries should be retained, but otherwise we think the guidance can be written in a way which makes fewer references to the details and which would simplify this section and the glossary.

6.6 Surely this should be “..no requirement for any accounting entries ..”

8.7, 8.9 and 8.10 There are quite a number of ‘shoulds’ which would seem to merit being ‘musts’.

8.15 Given that this guidance is for 2017 the reference to the FRSSE looks out of date for charities unless they are behind in producing accounts.

9.1 and 9.2 We found the cross references in this part of the guidance particularly helpful.

11.1 Examiners should certainly be encouraged to do a comparison to last year but not simply that. Analytical review should include comparison of actual with their expectations based on the knowledge built up from the planning of the engagement.

11.7 (also arises under 6.6) We consider there is a judgement to be made by the examiner as to how much in the way of additional procedures they should carry out. It needs to be made clear that examiners are not obliged to work, perhaps extensively, to satisfy themselves about the extent of issues or quantify misstatements. It is possible for them just to note and report problems they come across.

12.2 There should be a reference to the responsibility of the examiner of receipts and payments account in this paragraph as well as in 12.6.

13.8 Should this be 'material' instead of 'significant'?

There may be a case for guidance for examiners of charities where there are branches or subsidiaries and the reliance on the scrutiny by others – for example in relation to Directions 5 and 6?

Q.5 Do you agree that the example independent examiner's reports are an improvement and what changes (if any) would you suggest? Please give your reasons in support of your suggestions.

Q.6 Do you agree that the example independent examiner's reports meet all the legal requirements and what changes (if any) are needed? Please give your reasons in support of your suggestions and state which regulatory requirement(s) are not being met.

The wording generally seems clear.

We are not sure why in Example 6.1 there is no reference to having checked that an audit is not required, given Direction 1.

Q.7 Is the guidance in appendix 7 for each of the listed matters of material significance helpful, and how might it be improved? Please provide reasons for your answer.

This is helpful guidance generally. It might be helpful to provide examples of the sort of issues that should not be reported to the regulator

Q.8 Is the new section on reporting relevant matters to the commission helpful and if you answered no, how can it be improved? Please provide reasons for your answer.

Section 4 seems a helpful section.

There are several references to 'tipping off' offences. It would be useful if this was defined here or in the glossary.

Q.9 Do you agree that the Directions and guidance for independent examination should be extended to consolidated accounts. Please give your reasons why.

Consolidation may not be that rare with charities entitled to IE, given for example the advantages of placing trading activities into subsidiary limited companies.

Q.10 Do you agree that if the Directions and guidance are extended to consolidated accounts that the only modifications are those listed and if you answered no, what further modifications are required? Please give reasons for your answer.

Avoiding major additional text in this main document, guidance for examining consolidated accounts could be a separate guidance document or alternatively the adaptations suggested could be done in as helpful a way – perhaps by footnote.

Q.11 Do you agree that the proposed changes to Directions and guidance to independent examination will not give rise to significant additional burdens on examiners and trustees and if you answered no, what are the additional burdens? Please give reasons for your answer and if you have identified significant additional burdens, please express them in terms of the additional time to be spent and/or additional items of cost that will be incurred.

There will be some additional burden for the examiners and trustees from the three new Directions, perhaps especially that concerning going concern statements and assessments.

However while there may be little incremental effect we note that Directions and guidance constitute a significant requirement (especially for the volunteer examiners) who may only carry out these once or on a limited number occasions. This will be both in absorbing 68 pages of guidance and in the execution of further investigation of matters arising from the review.

Q.12 Do you have any other comments on the exposure draft Independent examination of charity accounts: Directions and guidance for examiners (CC32)? If so, please state the part of the exposure Draft you are considering and set out your comments with supporting reasons as to why a change is needed.

1.5 seems the best place to deal with the question of registered and excepted charities. It also would seem the most appropriate place to set out which charities can opt for IE and specify the lower threshold below which no scrutiny is needed.

1.7 We think this section needs to be reconsidered. The concepts of materiality and material need either to be covered here or in the glossary but perhaps not in both. Much of the text dealing with significance may not be necessary. We think examiners can rely on the common meaning of the word 'significant' but that the test of significance is essentially the same as for 'material' – omissions or misstatements are material/significant if they could alter the users' view of the accounts and report.

We propose to delete Section 2 given that it is longer than 'at a glance' and essentially repeats what is in the rest of the guide. Examiners realistically may be tempted to rely just on this summary. They need to be encouraged to read through the Directions and guidance in full.

Appendix 1 We do not think that the arrow from the top of the right hand column back to the left hand one should be labelled 'No'.

Appendix 5 will be of fairly restricted application and might be better presented as a link to the website of the Commission or OSCR.

Q.13 The new Directions are intended to take effect for reporting periods (financial years) ending on or after 31 March 2017. Do you agree that this effective date is reasonable and if you answered no, what alternate date would you suggest and why?

The reporting period involved has already begun, but if the guidance is completed before the end of 2016 or January 2017 then that would be a reasonable application date for these revisions.