Reporting on matters of material significance: revised guidance for auditors and independent examiners

RESPONSE FROM ICAS TO THE UK CHARITY REGULATORS

9 September 2016
Introduction

The ICAS Charities Committee welcomes the opportunity to comment on the UK Charity Regulators’ consultation on Reporting matters of material significance to the UK charity regulators: revised guidance for auditors and examiners.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Overall comments

We welcome the approach taken by the UK charity regulators to prepare joint guidance for auditors and independent examiners on their whistleblowing duties. Rather than commenting on matters of material significance in isolation, we believe it would have added value to the consultation had the accompanying general guidance been included. In particular, it would have been helpful to consider any revised guidance on the right to report as well as the duty to report. It would also have been desirable to comment on any guidance as to how auditors and independent examiners can comply with their whistleblowing duties under charity law and their money laundering reporting duties without the risk of ‘tipping off’.

Key points

We have the following key points to make on the approach taken to the revised guidance:

- There are now three different ‘whistleblowing’ channels, one each for external scrutinisers, trustees and employees. In Scotland, these are underpinned respectively by the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act), OSCR’s non-statutory serious incident reporting regime and the Public Interest Disclosure Act (PIDA) 1998 (which is a UK act and deals with ‘whistleblowing’ in the traditional sense). Recent changes to the PIDA mean that OSCR is now a prescribed organisation under the Act. While these regimes are not aligned, we believe there is scope, for example, for OSCR to align the serious incident reporting regime for trustees with the regime for external scrutinisers.

- The consultation paper makes it clear that the guidance isn’t complete and that more general guidance will be issued. We are of the view that the general guidance is really needed in order for the more detailed guidance to be applied appropriately. Taking Scotland as an example, the general guidance should cover a) how whistleblowing duties under the Charities and Trustees Investment (Scotland) Act 2005 are met alongside money laundering reporting requirements; and b) how both auditors and independent examiners dovetail their whistleblowing duties under the 2005 Act with their more routine reporting requirements. For example, should an auditor make a whistleblowing report to OSCR before issuing a non-standard auditor’s report or when the accounts are filed?

- In preparing the general guidance, it may be worth considering the extent to which independent examiners may or may not fall within the money laundering reporting regime. ICAS members who, free of charge or for a nominal fee, provide accountancy services, including independent examinations, to charities and therefore do not require a practising certificate, do not fall within the money laundering reporting regime.

Auditors fall within the money laundering reporting regime under the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007 as do ICAS members who provide other accountancy services, including independent examinations, by way of business.
• ‘Material’ is a word used on its own or as part of the phrase ‘material significance’. Where ‘material’ refers to a monetary amount in the context of the use of ‘material’ and ‘material significance’, it appears to be defined as per the Charities SORP. However, it is not appropriate for independent examiners or auditors of receipts and payments accounts to have to apply a definition of material from a different accounting framework. Therefore, the whistleblowing guidance itself needs to establish a definition for these terms, which is perhaps consistent with that of the Charities SORP.

• There are some challenges in the use of terminology around the consistent use of the terms ‘material’, ‘material significance’, and ‘significant’ as these do not always mean quite the same thing either in terms of the guidance itself and how these relate to other requirements, for example, there is no de minimis monetary amount in relation to reporting under the money laundering regulations. We recommend that use of terminology is revisited and revised prior to the guidance being finalised.

Specific comments on proposed matters of material significance

We have the following specific comments on the proposed matters of material significance set out on pages 8 to 11 of the invitation to comment:

• Item 8 on reporting to OSCR when resigning from office should perhaps be reworded to prevent over reporting rather than dropped entirely.
• Item 9 on non-standard auditor and independent examiner reports could lead to over reporting which could obfuscate significant issues. For example, an emphasis of matter in relation to going concern due to timing differences between accounts filing deadlines and confirmation of funding may be reported as a matter of routine.
• New item 10 on failure to respond to management letter points is cast too widely and seems to link to item 2 on reporting significant control weaknesses etc. Therefore, there may be a degree of duplication between these two items to resolve.

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