

Matters of material significance- consultation feedback statement

June 2020

Introduction

The feedback statement sets out why the UK charity regulators decided to update the guidance on reporting matters of material significance by auditors and examiners, the consultative process followed, and the changes made in light of the feedback received.

The participating regulators were:

Charity Commission for England and Wales (CCEW)

Charity Commission for Northern Ireland (CCNI)

Scottish Charity Regulator (OSCR)

Decision to update the guidance

The initial guidance was published in 2007 when the duty only applied in England and Wales and Scotland. An update was subsequently required due to the extension of the reporting duty by auditors and examiners to Northern Ireland. This version of the guidance was published in 2017.

The 2017 version of the guidance on reporting matters of material significance was developed following a public consultation exercise in 2016 on the matters proposed by the UK charity regulators. The new list of nine reportable matters took effect from 1 May 2017. Subsequent to its publication, CCEW received feedback that the detailed application guidance on some of the listed matters may not be fully consistent with the applicable International Standards of Auditing (ISAs). A decision was therefore taken to further update the guidance to reflect this feedback.

Prior to the planned publication of the further update the coronavirus pandemic occurred leading to a high degree of disruption. The UK charity regulators decided to add a section recognising the disruptive impact on the process of conducting of an audit or an independent examination need not be reported.

Consultative process

In response to the concerns raised, the UK charity regulators agreed to carry out a consultative exercise with those professional bodies listed for audit and those bodies approved for carrying out independent examinations of charities with an income greater than £250,000.

With respect to those bodies approved for independent examination contact was made with a set of questions on how their members were finding the current guidance and what changes they would like to see to it.

Respecting the different requirements of ISAs that set out the framework for the conduct of an audit, a draft of the existing guidance was shared with the bodies listed for audit seeking their views on the changes charity regulators were proposing to

make to address the need for closer alignment of the guidance with the applicable ISAs. This exercise concluded in November 2019.

Changes made resulting from feedback received

The following significant changes have been made to the guidance following the feedback:

- The fact that trustees have a separate duty to report means that there is duplication of reporting of an issue and reassurance was sought as to why this is necessary. An explanation is given.
- The duty applies to the audit or independent examination and reassurance was sort on this. More references to the work of the auditor or examiner are now included in the text.
- Internal auditors are under contract and cannot act in a manner that may give rise to a breach of contract. The legal protection afforded to auditors and independent examiners in making a report to the charity regulator does not extend to internal auditors and the guidance must reflect this fact. The guidance has been amended to cover the situation where the same Firm does both internal and external audits and aligned with the applicable ISA.
- The expectation that a report should be made as soon as possible does not align with the applicable ISA guidance around having a dialogue with those in charge of governance prior to making a report to the regulator in most instances. Changes have been made to reflect the different circumstances that may apply to clarify the expectation as to when a report should be made.
- Clarify why reporting a matter arising in a previous reporting period is needed. The text has been changed to clarify why reporting is needed.
- The guidance on internal financial controls should explicitly recognise the limited nature of any review that the auditor may conduct and that the examiner may not be required to look at this issue. Changes have been made to reflect audit and independent examination coverage.
- Some respondents queried how far an auditor or examiner should look to report on action taken by trustees as this involves additional work and the legal duty refers to not being expected to undertake additional work over and above what would be expected of an audit or independent examination. The text is clarified to refer to the knowledge the auditor or examiner has at the time of making their report.

Suggestions received but not taken forward

A number of significant suggestions were made that are not reflected in the updated guidance. For each suggestion an explanation is given as to why it has not been incorporated:

- Alignment of the requirements of trustees to report to their charity regulator with the listed matters reportable by auditors and independent examiners. The governance role and responsibilities of trustees is very different to the particular role of the auditor or independent examiner and the different reporting frameworks reflect this important difference. It is accepted some topics may be common to both, but the auditor or examiner have a particular focus on the accounts (financial statements) and this is respected.
- Dropping the reference to internal audit as for one audit body this risk of self-review rules out a Firm having both roles. The applicable ISA does not preclude a Firm undertaking this work subject to safeguards.
- Drop 'if in doubt report it' as this may lead to unnecessary reports. Other respondents preferred a clarity around reporting where not quite sure and so a clarification is added that having read the guidance and still unsure then report.
- Having an electronic report form in place of free text e-mails as a means of filing a report. This is a good suggestion and further consideration will be given to developing an electronic form but due to existing demands on the digital Teams of the regulators any proposal for an electronic form is likely to be for the medium-term.
- Some respondents sought an assurance that all reports to the regulator will be confidential and not shared with the client. This expectation is not consistent with the applicable ISA guidance concerning engagements and communicating with those in charge of governance. No guarantee of confidentiality is given in legislation with the exception of anti-money laundering provisions concerning 'tipping off'. The text has been strengthened regarding the existing annex that sets out the limited circumstances where confidentiality is given.
- The guidance should cover all foreseeable reporting duties to any regulator. Not accepted as the guidance is about a particular legal duty.
- The guidance should cover handling difficult conversations with trustees or when to resign an engagement. Not accepted as the member's professional body is better able to give such advice.
- The regulators should commit to reporting quarterly on the reports made. Not taken forward as outside the scope of updating the guidance.