



**CHARITY COMMISSION  
FOR ENGLAND AND WALES**

## Accounts monitoring review: Following up our review of reporting of matters of material significance by auditors

### Why are we following up our review of auditors' reporting?

Auditors (and independent examiners) of UK charities have a long-standing duty to report any matters of material significance that they identify in the course of their work to their respective charity regulator, as soon as they become aware of it. These reports provide valuable information to the UK regulators, informing our regulation of the charity sector and enabling us to engage more promptly with charities in difficulty.

With effect from 1 May 2017, the list of reportable matters includes where an auditor intends to give a modified audit opinion and/or an audit opinion that includes paragraphs about an emphasis of matter or a material uncertainty regarding going concern. The reporting requirements are explained in the UK regulators' guidance [Matters of Material Significance reportable to UK charity regulators](#).

In February 2018, we published the results of our research on auditors' compliance with this new aspect of their reporting duty in England and Wales during the first six months since the updated list of reportable matters came into force. We found that we had received only 28 reports from auditors, compared with the 114 audit opinions containing information that auditors were required to report to the Commission as a matter of material significance. You can find the full report at [Charity Commission accounts monitoring reviews](#). We have therefore followed up our review.

### What action have we taken in response to our findings?

Since our report was published, we have:

- written to the auditors of the charities for which we had not received the required report, reminding them of their responsibility to report a matter of material significance to us and asking them to explain why they had not done so
- written also to the auditors of a further 14 charities that submitted sets of accounts with a reportable opinion, but the audit report did not contain the date of the opinion. This means that we did not know whether the audit report filed with us was the final version
- engaged with the accountancy profession to raise awareness amongst their members of the duty to report matters of material significance and to discuss how our guidance can better support auditors in reporting to us

This report provides an overview of the responses from auditors and of our engagement with the accountancy profession.

## What response did we receive from auditors?

### Charities where a report of a matter of material significance was required (86 charities)

Most of the auditors responded to us promptly, apologised for the oversight and provided the required report. The main reasons that the auditors gave for not having reported to us at the time they gave their opinions can be summarised as follows:

- they had expected to issue their report before 1 May 2017 but completion of the work had been delayed
- they had believed that the new guidance applied to audits of accounting periods ending on or after 1 May 2017
- they had relied on checklists or other technical material which had not been updated for the change in guidance
- they considered that the issue highlighted in their audit report did not merit bringing to the Commission's attention
- they had not realised that emphasis of matter paragraphs are reportable

Twelve auditors did not respond to us. We established that one of them had their practising certificate withdrawn in January 2018. We contacted the other auditors by telephone and nine of them then provided the required report to us.

The other two auditors declined to file a report despite being contacted in writing and by telephone and so we have taken the initial steps to refer these cases to their professional body for their consideration. We consider there are grounds to conclude that these two auditors are in breach of a duty to report a matter of material significance to the charity regulator as required by the Charities Act 2011 and by the International Standards on Auditing.

### Charities where an undated audit report containing a reportable paragraph was submitted (14 charities)

All of the auditors named in the undated audit reports confirmed that they were the auditors of those charities for that year. They explained that the trustees had submitted the wrong version of their audit report in error. In one instance, the version of the audit report filed with us contained a modified opinion, but the audit report issued to the charity did not. All of the auditors that gave their opinion on or after 1 May 2017 have now reported to us, where a report was required. In addition, eight of the charities have now resubmitted their accounts and included dated audit reports.

We have reviewed all of the reports provided by auditors and engaged with the trustees over the issues they highlighted, where appropriate.

## What work have we done with the accountancy profession?

### Raising awareness amongst auditors

In March 2018, we took part in webinars about reporting matters of material significance with the two main accountancy bodies that regulate the auditors of charities in England and Wales, the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA). The webinars were part of the training provided by these professional bodies to their members. ACCA have since published an article drawing their members' attention to their reporting duties.

### Improving our guidance

In May 2018, ICAEW convened a meeting with leading audit firms to discuss current issues, including our report and the guidance. Following on from this, the UK charity regulators agreed to hold a dialogue with the main accountancy bodies on how the guidance on reporting matters of material significance can be improved to encourage auditor reporting. This dialogue has taken the form of meetings and workshops. We will also use the findings from this follow up review to inform improvements to the guidance. The UK charity regulators plan to update the guidance in early 2019.

In England and Wales, we intend to support the updated guidance with an on-line form for auditors to complete when they report a matter of material significance to us. This should provide greater clarity for both auditors and independent examiners on the type and amount of information that we are asking them to provide to us. We are also introducing a specific email address to which reports should be sent.

### Developing formal arrangements for sharing information

As explained above, we contacted and followed up auditors directly to encourage them to comply with their reporting duty. This should not be necessary, since auditing standards clearly identify the auditor's statutory reporting duties. For future activity in checking on reporting by auditors, we intend simply to refer non-compliant auditors (and professional independent examiners) to their professional body without prior notification or warning. Arrangements to facilitate this process are now in hand, with initial discussions held with both ICAEW and ACCA.

In addition, work continues on developing a formal framework with ICAEW and ACCA to share information on trends in reporting, including those of poor practice by their members, under a memorandum of understanding. This may include the failure to report a matter of material significance to the regulator. We intend to progress similar arrangements with other accountancy bodies in due course.

## What are the lessons for auditors, independent examiners and trustees?

### Auditors and independent examiners

We see the accountancy profession as key partners in helping us to raise the standards of accountability and transparency within the charity sector. We therefore look to members of the profession to fulfil their reporting duties diligently and thereby to assist us in our regulation of the charity sector.

### Trustees

Trustees need to be aware of the list of matters of material significance and of the duty placed upon an auditor or independent examiner to report these matters to the regulator. For their part, trustees are required to report serious incidents to the regulator. For charities registered in England and Wales, this requirement is explained in our guidance [How to report a serious incident in your charity](#)

We encourage trustees to submit their audited or independently examined sets of accounts as soon as they are available, so that their public information is up to date. When preparing their submissions, we recommend that trustees check that they have included the final version of the auditor's or independent examiner's report, stating the date on which the audit opinion or examiner's report was given.