

TPP Finance Breakfast Seminar

Wednesday 13th June 2018

Whistle-blowing to the Charity Commission by
Auditors and Independent Examiners

#TPPFinance

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About TPP

TPP Recruitment is a specialist, highly respected and well-established UK-wide consultancy.

- Our areas of expertise enable us to provide dedicated support to organisations across non-profit and public sector organisations.
- We have a specialist Finance division.
- We recruit at all levels from Assistant to Director level.

TPP Giving Back

- Free use of our boardroom for non-profit organisations
- Our staff volunteer and support various causes
- Free advertising for volunteer roles
- Career and interview workshops
- Sector partnerships

Thank you

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Guest speaker



Neal Gilmore FCCA | Charities Principal

HW Fisher & Company

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CHARTERED ACCOUNTANTS

Whistle-blowing to the Charity Commission by Auditors and Independent Examiners

Neal Gilmore FCCA

Charities Principal



About us

- Top 25 chartered accountancy firm
- Our charities group is one of the leading professional advisers to the voluntary sector, acting as charity auditors and accountants to 300+ charities:
 - large grant-making foundations
 - charities with complex structures
 - overseas charities
- We advise charities and other not-for-profit organisations on:
 - VAT
 - SORP and trustee training to payroll
 - management accounting
 - audit



Serious incident reporting by trustees

“You should report an incident if it results in, or risks, significant loss of your charity's money or assets, damage to your charity's property or harm to your charity's work, beneficiaries or reputation”

- Charity Commission



Serious incident reporting by trustees

- Financial crimes
- Large donations from an unknown or unverifiable source
- Other significant financial loss
- Links to terrorism or extremism
- Suspicions, allegations or incidents of abuse involving beneficiaries
- Other significant incidents, such as insolvency, forced withdrawal of banking services or actual/suspected criminal activity



Serious incident reporting by trustees

- Trustees – implement systems to ensure serious incidents are spotted as soon as possible and reported to the Commission
- Charities – ensure whistle-blowing policy covers the requirement to report matters to the Charity Commission
- Important that all trustees, staff and volunteers are aware of the requirements

Charity Commission annual return

- Charity's income £25,000+
 - if incidents occurred during the previous financial year, but were not reported, you should submit these before you file your charity's annual return
- Until all serious incidents have been reported, you will not be able to make a declaration, or complete the annual return, which is a statutory requirement
- Failure to report a serious incident that subsequently comes to light, could result in regulatory action by the Commission

When should I report?

- No minimum loss figure for reporting financial crimes
- Insolvency, significant fines and penalties, and losses arising from funding cuts and litigation. Significant financial losses that threaten a charity's ability to operate and to serve its beneficiaries, or where a charity's financial reserves are insufficient to cover the loss, must be reported
- Charities expected to report loss of funds or property with a value in excess of 20% of the charity's income, or if the total loss was over £25,000



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Reporting by auditors and independent examiners

Legal duty

- Legal duty on auditors and independent examiners
- Duty is immediate: report straight away if suspicious, not after the charity files



What are the matters of material significance?

- Dishonesty and fraud
- Failures of internal controls and governance
- Money laundering and criminal activity
- Terrorism
- Risks to charity's beneficiaries
- Breaches of law or the charity's trusts
- Breach of an order or direction made by a charity regulator
- **Modified audit opinion or qualifies independent examiner's report**
- **Conflicts of interest and related party transactions not managed appropriately**

Whistle-blowing by auditors and independent examiners

- The UK charity regulators' revised guidance on **matters of material significance** includes as a reportable matter the issuing of a modified audit opinion or qualified independent examiners report. This requirement has been in place from the introduction of the revised matters, from 1 May 2017



Voluntary reporting of relevant matters

- Legal protection for auditors and independent examiners to report 'relevant matters'
- Kids Company
- UK Regulators issued some examples in November 2017 of relevant matters of interest to the Regulators



What is the purpose?

- Source of intelligence - trends and emerging issues
- Opportunity for engagement
- Timely alert - if an uncertainty about going concern
- Adds a dimension to Charity Commission case work

Relevant matters

- Guidelines are provided about situations where the auditor or independent examiner is encouraged to report concerns about financial stability and/or reserves as a relevant matter:
 - Although it is not an amount material to the accounts a breach of trust (e.g. improper use of restricted funds) where the trustees have taken no remedial action
 - A donation from an unknown source with conditions where the trustees have not notified the regulator
 - Uncertainty over the renewal of a contract which is a material source of income to the charity
 - Over reliance on a key individual

Relevant matters

- For the current and preceding two or more years the charity has suffered a significant excess of expenditure over income
- The charity is reliant on a single source of income and the continued receipt of that income is subject to a high degree of uncertainty. This is either about its on-going payment or because there is a significant risk that it is about to be reduced by a significant amount and the trustees do not appear to have contingency plans in place to replace this income

Relevant matters

- The charity's reserves are significantly below target in the reporting period and there is a history of reserves being significantly below target in one or more previous reporting periods
- The charity has an unusual business model whereby it relies on a third party's goodwill to obtain funds, on a few key donors for funds, or on a key individual whether trustee or staff member to obtain funds
- The charity has significant net current liabilities and owes significant money to HMRC for more than three months on employer national insurance or similar obligations or has persistently incurred fines



Relevant matters

- The charity is behind on meeting pension payments to a pension scheme or has a defined pension liability/ obligation, that is or should be recognised on the balance sheet of the scheme, that exceeds both its net assets, at the end of the reporting period and the equivalent of its annual income
- The charity has been consistently late in meeting its payroll or in paying creditors and the level of relevant creditor balances is rising year on year

Conclusion

- Charities should ensure that such potential risks are considered as part of your risk management processes
- Ensure the necessary procedures and checks are in place
- Train staff, trustees and volunteers
- Take professional advice where necessary



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Questions?

Contact

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