THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

10 July 2008

Our ref: ICAEW Rep 81/08

Your ref:

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Dear Mr Marston

CONSULTATION DRAFT OF PRACTICE NOTE 11 - THE AUDIT OF CHARITIES IN THE UNITED KINGDOM (REVISED)

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the *Consultation Draft of Practice Note 11 - The audit of charities in the United Kingdom (revised).*

You will see that our response contains a number of detailed, practical points, as well as more general recommendations for non-charity specific material to be taken out of the document. We should be very pleased to help with this process once the consultation period has ended, or to give any other help that the working party considers useful.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 81/08

CONSULTATION DRAFT OF PRACTICE NOTE 11 – THE AUDIT OF CHARITIES IN THE UNITED KINGDOM (REVISED)

Memorandum of comment submitted in July 2008 by The Institute of Chartered Accountants in England and Wales, in response to the APB's consultation paper Practice Note 11 – The audit of charities in the United Kingdom (Revised) published in April 2008.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *Practice Note 11 - The audit of charities in the United Kingdom (revised)* published by the APB.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

4. The ICAEW Charities Sub-Committee is responsible for co-coordinating the technical considerations of the charity sector with respect to Chartered Accountants working within or for charities. Its membership represents the interests of practitioners, their clients and Chartered Accountants employed in financial roles within charities.

SUMMARY OF KEY POINTS

General

5. We consider that the Consultation Draft [Practice Note] (draft Practice Note) will be very useful to charity auditors, and the working party is to be congratulated and thanked for their time in developing the guidance. We believe that it is important for the Practice Note to be issued as soon as possible, given the delays (which we accept have been unavoidable) in completing the draft guidance. Apart from our concern about the implementation of changes to the legislative framework for charities, we do not have any major reservations and the points that follow are suggestions for changes that we consider will make the draft Practice Note more useful and user-friendly.

References to legislation and transitional arrangements (paragraphs 13 to 15)

6. We are very concerned that the changes introduced by the Companies Act and Charities Act of 2006 are far from straightforward and that the transfer of audit provisions for small charitable companies to charities legislation has not been as clean cut or final as paragraphs 20 and 21 in Appendix 1 suggest. There are different regulations concerning accounting and audit provisions for charities in England and Wales, and in Scotland, which add to the complexities for cross border charities in general, and small charitable companies operating in both jurisdictions in particular.

7. We believe that the example audit reports relating to small charitable companies (2, 4 and 6 in Appendix 4) are wrong as to content and legislative references and should be corrected if the Practice Note is to include audit report examples (see our paragraph 13 below).

8. There also needs to be more, and clearer, guidance on the transitional periods following implementation of the Charities and Companies Acts of 2006. The regulations relating to changes for small charitable companies, some of which are effective for accounting periods beginning on or after 1 April 2008, and others not effective until accounting periods beginning on or after 6 April, are particularly complex. We appreciate that if the APB is to give time-specific guidance, then it makes sense for it to cover only the period from which the legislative framework is fully operational, but this should be explained more clearly in the Preface.

Making the Practice Note more user-friendly (paragraphs 17 to 18)

9. Practice Note 11 (revised) is most likely to be used as a reference source by both specialist charity auditors and non-specialists. We agree that it is not intended to be used as a detailed, step by step guide to carrying out the audit of a charity. We believe that quick reference would be much easier if there were a detailed index in addition to the contents page, and if the APB used available technology to make the electronic version of the document more useful as a source of reference.

10. We also consider the draft Practice Note to be unnecessarily long, with material that is both repetitive and non-charity specific. We have made some detailed recommendations about paragraphs that we consider could be edited or removed altogether.

Focus of guidance: varying level of detail and inclusion of non-charity specific material (paragraphs 19 to 25)

11. A related point is that the draft Practice Note is not always clear as to its likely use and varies in the level of detail it provides. For example, there are a number of references to accounting principles which are not sufficiently detailed to be complete but which go well beyond a simple cross reference to other data. Some paragraphs on the application of individual ISAs contain material that is neither comprehensive, for the non-specialist auditor, nor selective, for reference on a particular question. There is also a lot of general material that could apply to the audit of an entity operating in any sector. We consider that the draft Practice Note should focus on high level, charity-specific points, and avoid referring to issues that would apply to the audit of any entity.

Trading, charitable status and taxation (paragraphs 26 to 28)

12. We consider that the introductory material on trading, charitable status and taxation should be made more substantial. The guidance needs to take into account the fact that the current UK tax regime drives charities to structure their activities in a way which commercial organisation do not.

REFERENCES TO LEGISLATION AND TRANSITIONAL ARRANGEMENTS

13. The changes to accounting and audit provisions for charitable companies, to bring small charitable companies within the scope of charities legislation, is not as clear cut as might have been expected. A small charity company must still claim exemption from audit under the Companies Act 2006 even if it is required to have an audit under the Charities Act 1993/2006, if it is not to be subject to the requirements of both Acts. This point does not appear to have been understood in the guidance or report examples in Appendix 4, which are therefore wrong. If charitable companies do not claim audit exemption under the Companies Act, then the related provisions of the Act, e.g. concerning trustees' responsibility for information given to the auditor, and consistency of the trustees' report with the financial statements, will apply.

14. It is essential that APB correct the small charitable company examples. If this is not possible in the planned timetable for issuing the revised Practice Note, then we recommend that APB remove the examples from the Practice Note altogether, although this would be regrettable, given the importance of the examples to users. We understand that APB is due to consult separately on a new version of ISA (UK and Ireland) 700 applicable for periods ending on or after 5 April 2009, so that the charity audit report examples could be issued separately as a bulletin once the new Standard is issued.

15. We note a number of inconsistencies in the way the Companies Act and the Charities Act are referenced. In addition there are a number of gaps in enactments dates between the two Acts. Given that the Practice Note will be best practice from the date of its publication (and indeed, we understand that the APB encourages auditors to have regard to this consultation draft) it is very important that the audit report examples in particular are clear as to the correct references to legislation for accounting periods beginning on or before 1 April 2008 or 6 April 2008. The transitional periods need to be clarified: the current Preface is not clear or comprehensive enough to help auditors deal with the changes.

16. This problem is highlighted in example 2 in the audit report examples. The effective dates of the changes involved in 'migrating' small charitable companies from the Companies Act 1985 to charities legislation are very difficult to interpret from the various statutory instruments. In view of the complexity, it would be helpful to explain in the example itself why the charitable company is audited under the Charities Act 1993 but that the reference for accounts preparation is to companies legislation. Further, it should be made clear that the accounting period for which this report is to be used is accounting periods commencing on or after 6 April 2008: our interpretation of the legislation is that for accounts relating to accounting periods commencing before 6 April 2008 the reference should be to the Companies Act 1985. As we have noted in our paragraphs 12 and 13 above, there are more fundamental problems with this report example, but we use it to illustrate the separate issue of the complexity of the transitional period.

MAKING THE PRACTICE NOTE MORE USER-FRIENDLY

17. We suggest that a detailed index could be compiled from key words that will identify charity-specific points on which the auditors might seek additional guidance. It would therefore be logical to compile the index from the section dealing with the special features of charities, for example 'cash donations' or 'overseas branches'.

18. In addition we urge the APB to make use of technology to make the document more user-friendly. For example, we note that, whilst the juxtaposition of references to the Scottish law with the position for England and Wales is helpful for charities with 'cross border' activities within the UK, the lengthy additional material reduces the 'usability' of the document for the majority of charities, who do not undertake activities in these different jurisdictions,. The electronic version of the document could use key words or other links to take users to the more detailed guidance applicable to the circumstances of the entity that they are auditing.

FOCUS OF GUIDANCE AND VARYING LEVEL OF DETAIL

19. We believe that the introduction should include the purpose statement from the fourth paragraph on page 4 of the draft Practice Note. It needs to be clear that the Practice Note is not intended to be a comprehensive guide to auditing charities, but is rather a document to which auditors can refer for practical guidance on the application of ISAs in the particular circumstances.

20. The draft Practice Note contains a number of detailed references to accounting principles which are not sufficiently detailed to be complete but which are considerably more detailed than a simple cross reference to other data. This treatment of some points and not others could lead to auditors who do not specialise in the charity sector giving undue weight to some matters and risk missing other elements which may be of particular relevance to a specific engagement but which are not included in the text of the draft Practice Note. For example, the bullet points in paragraph 147 provide information that is not useful to charity specialists on the one hand, but is insufficient to be useful and 'safe' for non specialists on the other. Another example is paragraph 37 in the draft Practice Note: see our paragraph 34 below.

21. The same comment can be made in respect of references to ethical standards and other non-charity specific considerations. In our view the present draft seems to somewhat fall between being a comprehensive guide to auditors who may undertake infrequent audits of charities and information for experienced charity auditors. We do not consider that the guidance should seek to be comprehensive. Ethical Standards require that auditors do not take on assignments for which they do not have the necessary competence and resources. Guides, etc. are available commercially for inexperienced or non-specialist auditors, so that the Practice Note should only go into detail where a charity-specific response may be needed to a particular auditing standard.

22. Paragraph 147 is a good illustration of our view that information is provided which is not useful to charity specialist auditors and is insufficient to be useful and 'safe' for inexperienced auditors. We recommend that the bullet points be omitted and a cross reference to the SORP given instead.

23. We do not consider that the second paragraph in the shaded box between paragraphs 146 and 147 starting on the bottom of page 46 and continuing on page 47 is necessary. We recommend that it be deleted as there are no charity specific issues connected with obtaining an understanding of the entity's objectives and strategies in this context.

24. Paragraphs 68 or 69 are examples of passages in the draft Practice Note that do not make very strong, charity-specific points. Paragraph 68 could be omitted as the same principles apply to any entity. Paragraph 69, if retained, could more usefully explain that fraud in the charity sector is not usually carried out by falsifying the financial statements. Falsifying statutory accounts usually provides no benefit, as there would be for a for profit company, in showing a higher profit to avail of artificial share prices or unearned bonuses. However falsifying accounts can be used to permit a fraud or to avoid detection. As a generality the charity represented by its management and its trustees does not actively try to falsify accounts as there are not the same incentives to do so.

25. Paragraph 211 largely repeats paragraph 26 but differs on points of detail. If the two paragraphs are to remain, their text should be the same and complete: alternatively, paragraph 26 could be strengthened with additional material currently in paragraph 211, and then 211 itself shortened along the lines 'As explained in paragraph 26, there is a fundamental principle that trustees and those connected with them may not profit out of transactions with the charity, except for closely defined exceptions. Accounting disclosure is required of any remuneration … ' etc.

TRADING, CHARITABLE STATUS AND TAXATION

26. Paragraphs 43 to 49 deal with trading, charitable status and taxation. We note there is no reference to the use made by charities of trading subsidiaries to address taxation issues, and the potential pitfalls arising from stripping out profits through Gift Aid donations to the parent charity. Nor is there any reference to the problems which may

arise in particular tax areas where judgement is required which may subsequently prove to have been incorrect and lead to a liability for the charity. As there may be considerable solvency and continuing funding issues arising from both points, they have to be considered by the auditors, and should therefore be included in the Practice Note.

27. We recommend that a reference to ancillary trading be included in the section on trading, charitable status and taxation, given the change in definition introduced by the Finance Act 2006.

28. We consider that the issues arising from cross charging for services (as an example, assuming such services are VAT exempt) should be “flagged up”, perhaps in paragraph 49 in the draft Practice Note.

COMMENTS ON SPECIFIC PARAGRAPHS

Introduction

29. Line 2 in paragraph 4 states “…independent examination will often be *required* instead of an audit”. The correct wording should be *permitted*. The point is that an independent examination will be required for some charitable companies that were previously exempt from audit: we do not believe that charities will be required to subject their accounts to independent examination instead of an audit.

Legislative and regulatory framework

30. Paragraph 11 states that charities may be subject to other regulatory regimes, such as higher education charities and registered social landlords. We recommend that the draft Practice Note clarify the extent to which it applies to the audit of entities that have to apply and comply with other regulatory obligations. The paragraph also states that “…charities, may be subject to *additional* accounting and audit requirements…” In our view this is incorrect or incomplete. Whilst accounting and auditing requirements for such bodies may, in some cases, be additional in the majority of situations the requirements will be *different* and not *additional*.

Special features of charities

31. In the contents page the section heading for paragraph 23 and subsequent paragraphs is given as “special features of a charity audit”. However in the body of the document it is given as “special features of charities”. This needs to be addressed and a decision made whether this section is to deal with the special features of charities or of their audits.

32. In our view the reference in paragraph 25 to trustee duties and responsibilities needs to clearly state that the list “includes but is not limited to” those points listed. We suggest the words:

> “no inference should be drawn about the relevance of the responsibilities listed to a specific charity. The absence of a responsibility from the list below does not signify a lack of importance in any given situation.”

be inserted in the introductory text to the bullet points. The paragraph should also cross refer very clearly to the comprehensive information given in the Charities Commission’s publication *“CC3 - Responsibilities of Trustees”.* In addition we question whether the ordering of the bullet points should be changed. We consider that bullet points 1 and 2 should be reordered as the content of the second is more important than the first. We question whether the ability or willingness of trustees to give time to the efficient administration of the charity should be included in this list at all.

33. Given the context in paragraph 29 of the draft Practice Note, we think that the word “unpaid” should be substituted for “volunteer”.

34. We suggest that the word “include” in paragraph 34 be deleted and the words “give rise to particular audit issues” inserted after the word “income”. Reference to trading with a primary purpose is not included as a source of income in the listed bullets, however, it is referred to in paragraph 44. We suggest trading is added to this list and a cross reference inserted.

35. In paragraph 37 the text states that “valuation issues exist for donations in kind” but the draft Practice Note doesn’t then go on to say what sort of issues or potential solutions or considerations exist. This is not very helpful in our view. We would suggest that as this is an accounting issue there should be appropriate cross reference to the SORP.

36. Paragraph 41 considers restricted funds and describes endowments as “where the assets are required to be invested”. This omits the common situation where endowments are held as property. The mistake is that when quoting from the SORP definition in Appendix 8 the description has failed to add the words “... or retained for actual use …”

Objective and general principles: auditor independence and objectivity

37. Whilst we note the reference in paragraph 52 to requirements which apply to listed companies, we are concerned that there is no direct reference to the arguably more relevant position of public interest entities. We therefore recommend that this reference be strengthened.

Terms of audit engagement

38. In our view the text of the third bullet point in paragraph 57 is not helpful. We recommend that the point be restricted to “access to information”.

Quality control for audits of historical financial information

39. We consider that the third bullet point in paragraph 123 of current Practice Note 11 is better directed than the phrase in paragraph 62(c) and should therefore replace the text in the proposed Practice Note.

The auditor’s right and duty to report to the regulator

40. Paragraph 114 discusses documentation of the auditors’ reasons for a decision to report to the charity regulator. Matters which may give rise to a need to report to the regulator under whistleblowing provisions may also trigger a suspicious activity report under anti-money laundering requirements. We are of the view that it is important that auditors understand the interplay between the different reporting requirements. For example, a report to the Charity Commission will not satisfy money laundering reporting requirements (and vice versa). In addition auditors should understand that a report to the Charity Commission will not constitute tipping off offence due to the permitted disclosure provisions under POCA, as amended. We therefore recommend that there be a cross reference to APB Practice Note 12 on anti-money laundering requirements.

41. We recommend that the specific regulation reference for the 2008 regulations is given in paragraph 116 (as is the case with the Scottish regulations).

42. (Paragraph 120): the right of auditors to report to regulators is found in primary legislation, not the regulations. The reference is Section 44A(3) of the Charities Act 1993.

43. We suggest that it would be useful to define “serious incident reports” in paragraph 231 and insert a cross reference to the relevant requirement as outlined in appendix 6 in the final bullet point.

Operating structures and branches

44. Paragraphs 30 to 33 set out general points about the structures within which charities operate. We consider that the point to be made here is that what constitutes a group can be far harder to determine in the case of charities than for commercial operations and, further, that the boundaries of the charitable entity itself can be difficult to define. This is an aspect of charity audits that we consider should be given greater depth in the revised Practice Note because it will drive the auditors’ assessment of internal controls and risks of material misstatement in the financial statements. We suggest that a federal structure could be added to the bullet point examples in paragraph 30, and additional guidance given on determining what controls exist to deal with the management of branches, in the fourth bullet point in paragraph 141.

45. Paragraph 33 refers to Appendix 8 for a definition of non autonomous branches. However, the definition is not really helpful, as it simply defines such branches as “entities or administrative bodies … which are included within the individual accounts of a charity”. In testing for completeness, auditors will be looking for entities or parts of the charity’s operations that are not autonomous, but which have not been included in the accounts. We therefore recommend that the definition be expanded to explain the distinction between autonomous and non-autonomous branches in the context of charities.

Obtaining an understanding of the entity

46. We suggest that the use of the word “described” in the final sentence of paragraph 145 overplays the extent of the information given regarding the special features of charities. In our view “touched upon” or “outlined” would be more appropriate.

47. We do not consider it to be appropriate for the Practice Note to suggest that auditors of charities routinely “[obtain] and [understand]…the performance indicators used” (paragraph 148). The use of performance indicators is not charity specific, and many charities are not subject to a legislative or regulatory requirement to adopt such measures. If a point is to be made at all in this respect, we suggest that the special consideration for charities is that performance indicators are often qualitative rather than quantitative, and therefore harder to pin down than is the case in a profit-oriented entity. The charity auditor takes into account the particular pressures bearing on charities that may influence the trustees’ choice of indicators and reporting of achievements against these.

48. We recommend that paragraph 148 be split into two paragraphs, as it covers two distinct points. Cost allocation and the reserves policy adopted by the trustees are different issues from performance indicators, and apply to charities of all sizes.

49. In our view, if a reference is made to Charity Commission guidance leaflets (footnote 25 to paragraph 150), the publication references should also be included. Thus we suggest insertion of CC8 and CC60 respectively. In addition we consider that the footnote should also cross refer to the other relevant Practice Notes, PN14 (registered social landlords) and PN24 (friendly societies).

50. Paragraph 153 should be expanded to explain the differences between the enhanced business review (EBR) statement required by companies legislation applicable to

medium-sized and large company charities, and the requirements of the SORP. The SORP requires that risks be **considered** whereas the EBR requires risks to be **stated**.

51. We consider that paragraph 156 should be expanded to include practical information and reference to the problems/issues arising from the use of separate IT systems for different activities, such as fund raising.

The auditor's procedures in response to assessed risks

52. We do not consider that paragraph 167 is very useful. If the point being made is that it is difficult for Trustees to ensure that appropriate controls are exercised before the income is in their hands, this is covered by paragraph 168. We suggest that paragraph 167 could be omitted.

53. We recommend that the first sentence of paragraph 169 be clarified by changing the wording to 'The Charities SORP reflects the position described in the previous paragraph'.

54. We also recommend that paragraph 170 include consideration to 'new-media' giving, for example text giving.

55. We recognise that the fourth bullet point in paragraph 170 has been drafted to address apparent inconsistencies in the application by charities of specific policies for the recognition of legacy income. Comparability of charities' accounts is undermined when almost identical policy notes support materially different figures. However, we do not consider that the proposed guidance in Practice Note is appropriate. The SORP provides the accounting guidance. We believe that the summary in the consultation draft Practice Note is at odds with SORP paragraph 125: the circumstances may vary widely between charities and from year to year within the same charity, so that we do not agree with the suggestion in this paragraph that the debtor should represent several months of legacy income.

56. It is for the auditors to satisfy themselves that the accounting policy note on legacy income recognition is unambiguous and complies with the SORP. The auditors then seek evidence about the charity's application of the stated policy. If, for example, the charity cannot produce documentation as to its monitoring of legacies, and effectively adopts a receipts basis (perhaps with a cut-off point of a certain number of months after the year end) the auditors may consider whether the scope of their work has been limited. We therefore recommend that the words from "For charities with an established legacy…" to the end of the paragraph, should be deleted and replaced with a recommendation that auditors consider the stated policy, compare it to the relevant paragraphs in the SORP, and consider whether the figures prepared by the charity match the SORP requirements.

57. With regard to the second sentence in paragraph 170, sixth bullet point (grants or contractual funding), we do not consider it appropriate for auditors to seek to obtain direct confirmation of the amounts receivable from the grant provider in all or even the majority of cases. We consider that the draft Practice Note should be restricted on this point to suggesting that auditors consider whether it is appropriate to seek such confirmation direct from a grant provider.

58. The last two sentences in bullet point 7 in paragraph 170 (non-cash donations) refer to the basis of valuation of non-cash donations. We do not consider this to be appropriate and we recommend that the sentences be deleted

59. We recommend that a further bullet be included in paragraph 174, referring to consideration surrounding the validity of transfers between funds.

60. There appears to be some duplication and repetition between bullets 5 and 7 and 6 and 8 in paragraph 176. We suggest that bullets 7 and 8 could be deleted.

61. Paragraph 177 appears to be an extension of the bullets in paragraph 176. We therefore recommend that the point becomes a bullet under the previous paragraph and the words "or other appropriate audit evidence" are inserted at the end. If this suggestion were accepted, the word "such" at the beginning of paragraph 178 would need to be changed to 'site'. The insertion of 'However' at the beginning of the second sentence would improve the flow of the paragraph, although it does seem to be stating the obvious.

Audit considerations relating to entities using service organisations

62. We recommend that more guidance be given in paragraphs 181 to 185 about the audit considerations relating to the use of service organisations for fundraising.

External confirmations

63. The considerations in paragraphs 194 to 196 (ISA (UK and Ireland) 505: *External confirmations*, apply to every audit, not just the audit of charities, so the material could be omitted. The paragraph in the second shaded box is helpful in itself, because it makes clear that it is for the auditors to use their professional judgment as to how best to obtain sufficient appropriate audit evidence in the context of charities that operate through extensive networks and may therefore have several hundred bank accounts.

64. We therefore recommend that paragraphs 194 to 196 be replaced by a single paragraph stating that the general principles contained in ISA 505 and supporting guidance on bank letters issued by APB in Practice Note 16, Bank reports for audit purposes', apply to the audits of charities as to any other entity. The consideration that may be different in relation to charities is where they operate a large number of accounts many of which may be relatively inactive, with immaterial balances, and with low fraud risk as assessed by the auditor. In these cases, the auditor may decide that methods other than obtaining bank letters will yield sufficient appropriate audit evidence.

Auditing fair value measurements and disclosures

65. The shaded box and paragraphs 206 to 208 on page 68 set out considerations relating to the application of ISA (UK and Ireland) 545 on auditing fair value measurements and disclosures in charities' accounts. We think there should be further clarification of the term "fair value" in the context of charity accounts. For example, revaluation of tangible fixed assets is simply application of alternative accounting rules and not "fair value" accounting. Paragraph 139 of the SORP does not mention fair value in relation to gifts in kind, but only "reasonable estimate of their gross value to the charity or the amount actually realised …". We recommend that a cross reference be given to the definition of 'fair value' in the SORP (Glossary).

The going concern basis in financial statements

66. We are concerned that the statement in Paragraph 218 that "the auditor willwish to ensure that the trustees have obtained and considered the relevant regulator's guidance on 'Public Benefit' …" could lead to an extension of auditors' responsibilities. It is not clear whether the auditors would need to do more than review the minutes of trustees' meetings and obtain a specific representation that they have complied with public interest benefit guidance. A balance needs to be struck between second-guessing the trustees –

which is not the auditors' role - and checking for consistency of the Trustees' Annual Report with the financial statements, as well as being aware of the going concern implications should a charity be judged not to have satisfied the public benefit criteria. In any case, the point about the relevance of public benefit considerations to going concern is already made in the last bullet point in paragraph 221: we consider that the material would be more appropriate in the section dealing with ISA 250, *Laws and regulations* as the issue is about compliance with the Objects in the context of Charity Law.

67. Paragraph 220 refers to auditors' reports on financial statements prepared on a receipts and payments basis. We recommend either that the Practice Note acknowledges that charities entitled to prepare accounts on this basis may require an audit on a voluntary basis, and give appropriate guidance on the special audit considerations arising, or that this paragraph be deleted..

68. Paragraph 221 gives examples of circumstances where a charity may not be a going concern. We note that nowhere in this section is intent mentioned. In particular we would expect to see the impact intent may have on the "foreseeable future" covered. For example a plan to curtail a charitable project in two years would effectively extend the foreseeable future for going concern from one to two years. We also are of the opinion that it would be helpful to state that charities cannot generally give an open-ended letter of support to non-primary trading subsidiaries, other than in relation to not requiring repayment of loans within the foreseeable future. Additional going concern indicators that could be included in the list of examples are:

- Loan made to subsidiaries which cannot be repaid
- Claw-back of grant received and gift-aid refunds
- Reliance on major donor(s)
- Failure to meet reserves policy targets

69. Paragraph 224 gives a charitable registered social landlord (RSL) as an example of specified conditions attaching to the receipt of public fund grants. In our view this is not a good example to use because the position for a RSL is far more complicated than suggested and in any event there is a separate Practice Note (14) for RSLs.

The auditor's report on financial statements

We do not understand the statement "The examples **therefore** exclude … Charities adopting the FRSSE" (our emphasis). No reason is given and we think that Appendix 4 should include examples of the audit report for a charity group. We have made a number of detailed recommendations on the audit report examples (excluding examples 2, 4 and 6), which we have appended to this response. We also recommend that further examples be given, or at least the variants in references to legislation, for unincorporated charities or larger charities operating in both England and Wales and Scotland.

70. Paragraph 272 states that "the Charities SORP applies to all charities in the United Kingdom." This is at odds with paragraph 13 in Appendix 1 which indicates that the Charities SORP does not apply to charities that are not required to present a true and fair view or to those that are subject to a more sector specific SORP. We recommend that paragraph 272 be brought into line with the later paragraph.

Appendix 1: Charity accounting and audit regulations in the United Kingdom

71. The table on page 98 states that Charitable Industrial and Provident Societies that are Housing Associations have no exemption from audit. This is no longer true under Schedule 11 to the Housing Act 2004.

Appendix 8: Definitions

72. We recommend that “those charged with governance” be included in the definitions in Appendix 8, making it clear that it is trustees and not the management of a charity who are “charged with governance”.

73. Also in Appendix 8, we consider that the gift aid definition is poorly worded. Gift aid may not just relate to cash, and the definition is worded from the point of view of the donor not the charity.

The NDPB definition in Appendix 8 should refer to Practice Note 10.

Drafting, editorial and typographical points

74. We have noted some formatting errors such as missing page numbers (pages 20 and 103) and typographical errors such as the incorrect use of singular and plural in paragraph 28 when referring to trustee(s). There are also spelling inconsistencies, for example UK and US spellings of ‘organisation’ are used at different places throughout the document. We assume these and similar points will be picked up when the draft is checked prior to publication: however, we give some specific points in the following paragraphs.

75. There appears to be wording missing from footnote 8 to paragraph 24 between “are defined in” and “as”.

76. Charity Commission publication CC31 will have been revised and published by the time the draft Practice Note is issued. We therefore recommend that footnote 22 (paragraph 109) be amended to show the position as of the date of issue.

77. It would be helpful to cross refer Paragraph 251 to the audit report examples in Appendix 4.

78. Paragraph 263 states, in the third line of the paragraph following the bullet points, that the SORP “recommends” an external scrutiniser’s statements to be attached. We think that the word should be ‘requires’.

79. It would be better if the table on page 98 referred to the larger charitable company limit as a figure (£500,000), rather than referring to the audit threshold.

80. Page 100, paragraph 28; the third bullet point should refer to “accruals accounts” and not “fully accrued accounts” (i.e. in respect of charities for which the income exceeds £100,000).

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Appendix

Detailed comments on audit report examples

All examples

1. The use of the term ‘Registered Auditor(s)’ will not apply for periods commencing on or after 6 April 2008. The sign off for audits carried out under the 2006 Companies Act should read:

[Signature of partner]
[Printed name of partner] (Senior Statutory Auditor)
for and on behalf of [name of firm]
[Chartered Accountants and] Statutory Auditors
[Town/City, Country]
[Date]

2. For audits not carried out under the Companies Act 2006, the sign off should read:

[Signature of firm]
[Name of firm]
[Chartered Accountants and] Statutory Auditors
[Town/City, Country]
[Date]

3. We do not consider that the first paragraph is necessary for those auditors that include a ‘Bannerman’ paragraph in their reports. We suggest that the reference to the legislation under which the report is issued could either be moved to introductory text setting out the circumstances before the actual example audit report, or put in square brackets with a footnote to explain that it is not needed if the same information is to be given elsewhere in the report.

4. In the responsibilities of auditors, we think it would be better to say prepared in accordance with ‘United Kingdom Generally Accepted Accounting Practice’ rather than "the relevant financial reporting framework", as there is only one such framework applicable to charities.

5. We believe the wording could be improved by replacing the repetitious "….true and fair view **and are** properly prepared in accordance with… **and are** prepared…" with ‘… true and fair view**, are** properly prepared in accordance with… **and are** prepared…’.

6. There is inconsistent use throughout of the terms "are prepared" and "have been prepared" (see under ‘Respective responsibilities …’ and ‘Opinion’). These were also noted in the APB Bulletin 2006/6 examples.

7. There is also inconsistent use of "statement of accounts" and "financial statements" in examples 2, 3, 5, 6, which could cause confusion

Recommendations for individual examples

Example 1

- Refers to the Companies (Northern Ireland) Order 1986: this is superseded by the Companies Act 2006
- If the first paragraph is deemed necessary (see above), it should refer to sections 495 and 496 of the Companies Act 2006 (i.e. not just section 495)

Example 3

- Under the auditors' responsibilities, we believe that there is still a requirement to report where the trustees' report is **inconsistent** with the financial statements - Regulation 25(1)(h)(iii).

Example 5

- We note that there are some differences between the wording of this example and the report examples published by the Institute of Chartered Accountants of Scotland (ICAS). We have left these to be taken up by ICAS.

Example 6

- We recommend that a further example be given, or at least the variants in references to legislation, for unincorporated charities or larger charities.

Example 7

- This example will need to be updated to reflect changes introduced by the new bulletin on summary financial statements (2008/3).