

24 August 2017

Kate Acott
Project Director
Financial Reporting Council
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125 London Wall
London
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By email to: AAT@frc.org.uk

Our Ref: PF/JC

Dear Ms Acott

Invitation to Comment
Proposal to revise PN 11: The audit of charities in the United Kingdom

We welcome the opportunity to comment on the proposal to revise PN 11: The audit of charities in the United Kingdom

Crowe Clark Whitehill LLP are a leading audit and advisory firm in the Not for Profit Sector.

Please do not hesitate to contact me if I can provide any further information or explanations on the attached response.

Yours sincerely



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Responses to the consultation questions:

Question 1: Overall do you agree with the proposed revisions to the Practice Note? If not, please explain why.

Overall we agree with the proposed revisions to the Practice Note. In our opinion the guidance included provides appropriate guidance for the practical application of ISA's (UK) in the context of a charity audit. Please note our response to Question 3 below.

Question 2: Is the included guidance appropriate? If you believe it should be amended, please explain why and how.

In our opinion we consider the guidance to be appropriate. We note that when the exposure draft was written the Charity Commission guidance on the extension of the "whistleblowing" duties of auditors and independent examiners was not finalised. We note this final guidance has now been issued, albeit with only minor changes from the draft guidance. The revised Practice note should be updated to ensure it is consistent with the issued guidance.

In our review we note the following minor points where we believe the guidance should be updated:

- In relation to ISA (UK) 320 paragraph 106 provides guidance that breaches of trust identified in the course of the audit, regardless of materiality need consideration and discussion with the trustees. We believe the following paragraph also follows this consideration, in order to clarify this we would suggest paragraph 107 starts with "In this context ...".
- We believe the guidance on reporting to the regulator should be clarified. Paragraph 257 states a report is required immediately the matter comes to the auditors attention, while paragraph 259 states the report needs to be made without undue delay. This appears contradictory and the guidance would benefit from greater explanation of when a report is expected to be made.
- In particular the guidance would benefit from explaining how this should be interpreted in respect of an audit qualification, especially, for example in respect of going concern. We believe the appropriate approach in such circumstances is to report only after issuing the audit report and without undue delay however the guidance might be interpreted that a report should be made when the auditor becomes aware of the going concern issue. In exceptional circumstances where there is concern as to safeguarding charitable assets that may be the case. As a result we believe the consideration as to the timing of a report should be clarified.

Question 3: Has any extant guidance been deleted that you believe should be retained? If yes, please explain why it should be retained and whether, and if so how, it should be updated.

We note that the section on Special features of charities in Paragraphs 23 to 51 inclusive of the previous version of the practice note has been removed. In the context of charity audits we note the audit thresholds for charities are significantly lower than corporate audit thresholds. As a result much smaller charities are subject to audit and it is likely these audits will be performed by smaller audit firms who, in some cases may lack the specific experience of the charity sector. In this context we would consider the guidance to provide useful context and information on the particular issues that may arise on a charity audit. We would therefore recommend that this guidance is reinstated as an appendix to this Practice note.

Question 4: Are there any other matters in relation to the audit of charities that you believe should be covered in the Practice Note and, if so, what do you believe the guidance should address?

We note the draft Practice Note does not include the full list of the circumstances under which an auditor needs to report to the Commission. We would suggest a summary of these requirements is added as an Appendix.