

Kate Acott
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Financial Reporting Council
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21 August 2017

Dear Kate

Audit Practice Note 11: Related Parties

Thank you for your invitation to respond to the Financial Reporting Council's consultation on Audit Practice Note 11, concerning the audit of charities in the UK. We are writing to seek changes to the section on 'Related parties'.

The Association for Charitable Foundations is a membership body, established in 1989, with over 330 members. We work closely with other charity sector bodies and understand that Charity Finance Group is preparing a more detailed response to the above consultation. However, ACF wishes to raise one specific issue that has affected our members.

This year we were contacted by a member during their audit. They reported that their auditors had requested each trustee and senior management team member complete a form listing all of their family members and any other related individuals, in order to confirm their 'nil' reporting of related party transactions. This request was felt to be unduly intrusive, particularly as it required trustees and senior staff to name domestic partners and children, despite the charity having no transactions with them. We have subsequently heard of at least one other organisation that was required to make similar declarations.

We are concerned about this case because of the risk that such intrusive audit practices, if they became widespread, could deter individuals from a diverse range of backgrounds serving as charity trustees or in senior leadership roles within charities. For example, where someone may prefer not to reveal their sexual orientation or private domestic arrangements.

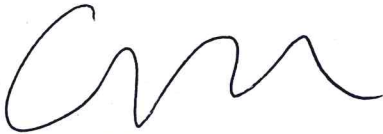
We have looked into the issue and believe the extended definition of related parties stemmed from section 350 of the Charities Act 2011 (www.legislation.gov.uk/ukpga/2011/25/section/350).

We have already raised our concern with Nigel Davies at the Charity Commission who was receptive and has agreed to develop a statement about the matter. However, we believe a clarification of the Audit Practice Note 11 would also be helpful and likely to have a greater influence on auditor practice. In particular, to clarify a proportionate approach to nil reporting.

It would be most useful if your working group could consider a change to relevant sections of the guidance. We note, for example, that paragraph 153 of the current guidance steers auditors to a very broad search for information about related parties: *"In addition...the auditor inspects whatever documentation the auditor considers necessary for indications of the existence of related parties (e.g. minutes of trustee meetings)."* We would be concerned if this led to similar approaches to those described above, whereas it would seem more proportionate for trustees and senior staff to consider the relevant definition of related parties and then confirm whether they had any related party transactions or a 'nil' report.

We are most grateful for your consideration of this matter and look forward to hearing back from you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carol Mack', with a stylized, cursive script.

Carol Mack
Chief Executive