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Dear Ms. Acott

## **Proposal to revise Practice Note 11: The audit of charities in the United Kingdom**

Thank you for the opportunity to comment on the proposed revisions to the Practice Note.

We support the revision of Practice Note 11 and our responses to the FRC's detailed questions are set out in appendix 1 to this letter. We have included some detailed drafting comments in appendix 2.

In particular, in our response to question 2 we have highlighted that we do not believe the Practice Note correctly defines the term "statutory other information" as that term and the related requirements in ISA (UK) 720 apply only to charitable companies. Therefore, the trustees' report for charities that are not companies does not meet the definition of "statutory other information".

We would be happy to discuss our letter and the draft proposals with you. If you have any questions about our comments, please contact Reza Motazed (020 7007 7646 or [rmotazed@deloitte.co.uk](mailto:rmotazed@deloitte.co.uk)) or Philip Lenton (020 7007 1772 or [plenton@deloitte.co.uk](mailto:plenton@deloitte.co.uk)).

Yours sincerely



**Deloitte LLP**

## Appendix 1 – responses to consultation questions

### **Q1. Overall do you agree with the proposed revisions to the Practice Note? If not, please explain why**

Yes, we support the proposed revisions to the Practice Note subject to the other comments in this letter.

### **Q2. Is the included guidance appropriate? If you believe it should be amended, please explain why and how**

Yes, except for the guidance included in paragraphs 216 to 226, which we do not believe is correct as “statutory other information” in ISA (UK) 720 only relates to charitable companies. Paragraph 12(d) of ISA (UK) 720 makes clear that this is the directors’ report, strategic report and separate corporate governance statement. Therefore, the trustees’ report for charities that are not companies does not meet the definition of “statutory other information”. We recommend that this section be redrafted to make more clear which requirements of ISA (UK) 720 apply only to charitable companies.

We have included a number of other suggestions or comments in Appendix 2.

### **Q3. 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.**

No.

### **Q4. 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?**

Yes. Given that paragraph 182 refers to the duty to report a matter of material significance to a charity regulator in respect of going concern audit report modifications, it would be helpful if the wider responsibilities to report where the audit report is modified were mentioned in either a new section on ISA (UK) 705 or in the section on reporting matters of material significance to charity regulators.

## Appendix 2 – Detailed comments on the proposed Practice Note 11

General – consistency of references to Charity Commission and other publications

- In most cases (for example footnote 37), only the name of the publication is given. However, in other cases (for example footnote 32), a hyperlink is also given. We recommend that a consistent approach be adopted.

General – consistency with Practice Note 15

- Practice Note 11 summarises the purpose of the relevant ISAs in grey boxes, whereas in Practice Note 15 these were numbered paragraphs in the Practice Note. We do not have a preference as to which approach is adopted, but recommend that whichever approach is used is done across all Practice Notes.

Paragraph 19

- We do not believe this paragraph is required. Relevant information will include more than these matters and it is not clear why these matters are being referred to explicitly as opposed to other information.

Paragraphs 21, 74, 88, 92, 94, 95, 108, 118, 123 (including footnote 51), 125, 134, 182

Appendix 2 paragraphs 42, 43, 46, 54 to 57

- We recommend that an alternative word to “should” be used in these paragraphs given that the Practice Note is intended to provide guidance on the application of auditing standards rather than be a standard in its own right.

Paragraphs 22 to 26

- We note that there is an inconsistency with Practice Note 15, where matters such as ethical requirements and assignment of engagement teams are covered in the section on ISA (UK) 200 rather than ISA (UK) 220.

Paragraphs 22, 112, 121, 211

- We note that these paragraphs use the phrase “The auditor must”. As per the above references to “should”, we question whether the use of this phrase is appropriate in a Practice Note.

Paragraphs 27 to 28

- We note that these paragraphs were considered necessary for a charity and therefore also wonder whether they would be equally relevant for engagement quality control reviews for pension schemes in Practice Note 15.

Paragraph 31

- It is unclear why “grants payable” is a fraud risk factor in its own right. If this is retained, we recommend that this bullet point be expanded to give more explanation as to why this is relevant, such as whether the recipient of the grant met the conditions for the grant to be payable.

Paragraph 58

- The National Crime Agency (NCA) had already been defined in paragraph 38.

Paragraph 73

- The list of laws and regulations referred to in this paragraph includes a number of such laws that are not specific to charities.

Paragraph 103

- Given that materiality is a judgement not a calculation, we recommend that “materiality figure” is used instead of “materiality calculation”.

## Paragraphs 110 to 125

- Given that these paragraphs are a mixture of risk assessment and response to audit risks, we question whether they would fit better as part of an appendix rather than being placed only in a section of the Practice Note about responding to risks.

## Paragraph 120

- This paragraph is in the section on ISA (UK) 330 but relates solely to risk assessment, as opposed to responding to risks. We recommend that this paragraph be combined with paragraph 121 and that as for the other matters considered in this section, the paragraph refer to assessing risks and addressing those risks.

## Paragraph 132

- Footnote 53 needs to be updated to refer to the relevant paragraphs of the updated Practice Note 15. In the consultation draft, these were paragraphs 177 to 179.

## Paragraph 155

- We do not believe this paragraph is necessary as it simply repeats the requirements of the ISA (UK).

## Paragraph 158

- We do not believe this paragraph is necessary as it just repeats a disclosure requirement of the SORP. If this paragraph were to be retained, it might be helpful to refer to the auditor's reporting requirements in respect of going concern where there are no material uncertainties.

## Paragraph 207

- We do not believe this paragraph is necessary as it simply repeats the requirements of the ISA (UK).

## Paragraph 210

- We do not believe that this paragraph appropriately describes the auditor's responsibilities in this area as these will vary depending on whether the charity is a company. For example, auditors of charitable companies will also be required to report on whether directors'/trustees' remuneration has been appropriately disclosed in accordance with the Companies Act 2006. Instead of including a summary here, it may be helpful instead to refer to the relevant paragraphs of Appendix 2 where more information is provided.
- We are aware that the ICAEW is preparing a helpsheet to assist auditors when preparing audit reports for charities and it may be helpful to refer to that helpsheet in this section assuming it has been published by the ICAEW at the time the Practice Note is finalised.

## Paragraphs 216 to 226

- As discussed in our response to question 2, we do not agree that the trustees' report for charities that are not companies meets the definition of "statutory other information". In particular (and as correctly stated in paragraph 226), the reporting responsibilities in paragraph 22D-1 of ISA (UK) 720 do not apply to charities that are not companies.

## Paragraph 227

- We note that reporting matters of material significance to charity regulators is a separate section of the Practice Note. Practice Note 15, however, included the equivalent guidance in a section on ISA (UK) 250 Section B and we recommend that the approach of the two practice notes be consistent.

## Paragraph 229

- The hyperlink contained in footnote 82 is not to a valid webpage.

## Paragraph 246

- This paragraph needs to be revised to make clear that a copy of the statement only needs to be sent to the charity regulator where there are matters which the auditor considers should be brought to the attention of the trustees.

## Appendix 1

- Some of the bullet points do not give any indication as to why they may indicate risks of material misstatement, for example grants payable or receivable, legacies. If these are included, it would be helpful to explain why they are relevant.