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By email: d.marston@frc-apb.org.uk

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Dear Mr Marston,

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

PricewaterhouseCoopers LLP welcomes the chance to respond to your request for comments on the *Consultation Draft of Practice Note 11 - The audit of charities in the United Kingdom (revised)*.

This response is made on behalf of PricewaterhouseCoopers' Charities Group which works with a significant number of charities in the UK as auditors and therefore has considerable experience in this area.

We also note that the two leaders of our Charities Group – Bob Humphreys and Liz Hazell – are members of the Institute of Chartered Accountants for England and Wales Charity Committee which we understand has responded separately to this consultation. We have therefore not sought to replicate their editorial comments, which we have fed into, in this letter but rather focus on some of the specific points that we have in relation to this consultation.

Overall view

We consider that the consultation document will be very useful to those auditors working with charities and will enhance the service that these individuals can bring to the audit of charities in the UK.

We do not have significant concerns about the consultation but do have specific areas that we have commented upon or where we have specific questions to raise. Our points have been raised in the order of the consultation in the appendix to this letter.

Should you have any questions concerning this letter, please contact Fiona Westwood.

Yours sincerely,



PricewaterhouseCoopers LLP

Appendix 1 - Practice Note 11

We have summarised our points under the sections included within the draft practice note to assist in your overall review.

Introduction

The introduction provides a useful reiteration of the laws that are applicable for charitable entities. The consultation helpfully states that OSCR has prepared guidance for those charities registered in England and Wales with operations in Scotland entitled "Guidance on registration with OSCR for England and Wales charities" (Sept 2006). However, OSCR has delayed the monitoring of England and Wales charities operating in Scotland until it has concluded on its discussions with the Charity Commission on how to monitor these entities and ensure the burden is minimised. It would be useful for the practice note to comment on the position at the time of release on these discussions so that auditors are aware of the monitoring regimes going forward.

The introduction section comments on the new Charitable Incorporated Organisation (CIO) that was introduced in the Charities Act 2006. Given that there is limited information regarding CIO's at this time is the APB planning on introducing further guidance to take account of future CIO legislation / guidance that is not expected to be released for some time?

Operating structure and branches

Paragraphs 30 to 33 set out some general information about structure. Our experience of working with charities is that structures are more complex and difficult to identify than the guidance provided suggests. Given that it is imperative that auditors understand the organisational structure before assessing the internal control environment or risk of material mis-statement in the financial statements, we believe that this area should be given great depth in this practice note.

ISA 240: The auditor's responsibility to consider fraud in an audit of financial statements

We believe that the new paragraphs provided in the practice note regarding fraud (misappropriation or misapplication of funds between restricted and unrestricted and incomplete records, and the risk that funds are diverted to external bank accounts) and the suggestions about the specific audit procedures that should be followed to counter these risks are sensible and helpful additions.

ISA 250: (B) The auditor's right & duty to report to regulators in the financial sector

This appears to be one of the most updated / changed sections. Paragraph 103 (*'Neither the Charities Act 1993 nor the 2005 Act (Scotland) require auditors to perform any additional work as a result of the statutory duty nor are auditors required specifically to seek out breaches of the requirements applicable to a particular charity'*) which is now in bold and has moved to the main section of the standard is helpful clarification for auditors.

ISA 260: Communication of audit matters with those charged with governance

We believe that the introduction of additional wording in respect of this ISA relating to the information that should be reported and to who it should be reported should aid understanding for charity auditors.

ISA 315: Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement

Para 146 among others highlights the need for teams to understand the governing document of a charity. We believe that this is a useful prompt for charity auditors.

ISA 320: Audit materiality

Paragraph 164 highlights an expectation that auditors may use different materiality levels for different types of funds, for example a lower materiality when reviewing restricted or endowment funds. We believe that this is a sensible addition, however note that most auditors should already be taking account of this type of area in their setting of 'specific materiality'.

We believe that it would be useful for the practice note to provide guidance on a benchmark quantification of materiality. Parameters could be provided without undermining the fact that this is an area where judgement should be applied by the auditor.

ISA 402: Audit considerations relating to entities using service organisations

Paragraph 186 to 188 highlights the importance of service organisations increasingly in the audit of the larger charities in the UK. Many charities are increasingly using organisations such as fulfilment houses and therefore the discussions in this section regarding the use of AAF 1 reports are important points to clarify for charity auditors.

ISA 520 - Analytical procedures

Paragraphs 199 and 200 provide useful guidance to charity auditors on the use of planning and risk assessment analytical procedures, but do not comment on the use of substantive analytical procedures that might be used during the course of the full audit. It would be useful to clarify in the practice note how substantive analytical procedures might be used legitimately during the course of the audit of the financial statements and provide guidance in the practice note about the types of analytics that might be used.

ISA 570: The going concern basis in financial statements

We believe that an additional reminder should be included in this section (paragraph 226 would be appropriate) that charities cannot generally issue an open-ended letter of support to a non-primary trading subsidiary, other than in relation to not requiring repayment of loans within the foreseeable future, as that would amount to a commitment to reduce charitable funds.

ISA 580: Management representations

Within paragraph 231 are the words "serious incident reports". We believe that these words should be defined within the practice note.

ISA 700: The auditor's report on financial statements

We believe that the section that provides examples for points to consider when forming the opinion (namely, consistency of accounting with the SORP, adequacy of analysis of incoming resources, allocation of expenses in the SOFA, heritage assets, capitalisation, and constructive obligations on grants payments) is a helpful addition for auditors.

Appendix 4: Illustrative examples of auditors' reports on charities' financial statements

Appendix 4 provides a summary of the audit reports that should be used for each type of entity. We believe, however, that the consultation should clarify which audit report should be followed where a charity is a charity that is both registered in England and Wales with the Charity Commission and in Scotland with OSCR? Is there further advice that could be provided in the practice note with regard to this question?

Appendix 7 Control activities

We believe that a section should be included within appendix 7 to cover controls that can be applied to ensure that related party transactions are identified. For example, many charities use declarations of interests by trustees (through the use of signed trustee declaration forms) to identify related parties and in turn auditors review these along with minutes of trustee meetings to ensure that disclosures are appropriately reflected in the accounts.