

FEEDBACK PAPER ON THE CONSULTATION DRAFT OF PRACTICE NOTE 11 (REVISED) “THE AUDIT OF CHARITIES IN THE UNITED KINGDOM”

1 Introduction

1.1 In October 2010 the Auditing Practices Board (APB) issued for public comment an Exposure Draft of a revision to Practice Note 11 (Revised) “The Audit of Charities in the United Kingdom”. The extant version of Practice Note 11 (Revised) at that time had been issued in December 2008.

1.2 The Exposure Draft gave effect in the Practice Note to:

- The issuance of clarified International Standards on Auditing (ISAs) (UK and Ireland), which apply to audits of financial statements of occupational pension schemes for periods ending on or after 15 December 2010; and
- Changes in the legislative and regulatory framework, in particular to recognise a new regulator in Northern Ireland and changes to reporting thresholds.

1.3 The 15 respondents to the consultation are listed in the Appendix to this feedback paper. In addition input was provided by staff from the Audit Inspection Unit, the Charity Commission for England & Wales, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland during the development and finalisation of the revisions to the Practice Note.

2 Overall satisfaction with the proposals

2.1 Although commentators made a number of detailed recommendations with respect to the proposed text of the Practice Note they expressed a high degree of general satisfaction with the Exposure Draft.

3 Matters of material significance to a charity regulator

3.1 A number of respondents expressed concern that the auditor’s duty to report matters of material significance to the relevant charity regulator could result in a ‘tipping off’ offence being committed if the matters have already been reported to the Serious Organised Crime Agency. Guidance in this respect in the Practice Note was amended to more closely follow the wording of amendments to legislation¹ which narrowed the ‘tipping off’ offence.

4 Recognition of legacy income

4.1 Traditionally legacy income has not been brought into accounts by charities until it is certain that it will be received. However, under current accounting standards, income should be recognised on an accruals basis without bias in

¹ Section 333(A) of the Proceeds of Crime Act as amended by The Terrorism Act 2000 and Proceeds of Crime Act 2002 (Amendment) Regulations 2007.

favour of prudence. The section on ISA (UK and Ireland) 330 on the auditor's responses to assessed risks includes guidance that income is normally recognised following probate or confirmation when the executor(s) have established that there are sufficient assets in the estate, after settling liabilities, to pay legacy income. A number of respondents commented on this approach suggesting that the receipt of funds is not certain at the time of probate and this is not an appropriate point at which to recognise legacy income. The wording of the guidance has not been amended since the previous version of the Practice Note and, as there has been no change in accounting guidance on this matter since that date, no further changes have been made in the final version. It is likely that this matter will be revisited when an accounting standard for public benefit entities is developed by the ASB.

**RESPONDENTS TO EXPOSURE DRAFT OF PRACTICE NOTE 11
(REVISED)**

Accountancy bodies

- 1 Association of Chartered Certified Accountants
- 2 Association of International Accountants
- 3 Charity Finance Directors Group
- 4 Chartered Institute of Public Finance & Accountancy
- 5 Institute of Chartered Accountants in England & Wales
- 6 Institute of Chartered Accountants of Scotland
- 7 South Western Society of Chartered Accountants

Auditing firms

- 8 Deloitte LLP
- 9 Grant Thornton UK LLP
- 10 KPMG LLP
- 11 Mazars LLP
- 12 PKF (UK) LLP
- 13 PricewaterhouseCoopers LLP

Other

- 14 Cancer Research UK
- 15 Charity Administration, Resourcing and Accountability