

## 2.04 SMALL CHARITABLE COMPANY – AUDIT (COMPANIES ACT 2011)

The purpose of this schedule and the Standard Terms of Business is to set out the basis on which we are to act as auditors and to clarify our respective responsibilities in respect of the audit.

Auditing Standards require us to appoint an engagement partner who shall take overall responsibility for the planning and conduct of the audit, and for the report that is issued on behalf of the firm. We have assessed the professional requirements of this assignment and have nominated the person listed in [Key Facts](#) as the engagement partner.

### 1 Your responsibilities as directors/trustees

- 1.1 Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility:
  - (a) to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources of the charitable company for that period. As directors/trustees you must not approve the financial statements unless you are satisfied that they give a true and fair view of the assets, liabilities, financial position and surplus or deficit of the charitable company;
  - (b) in preparing those financial statements, to:
    - (i) select suitable accounting policies and then apply them consistently;
    - (ii) make judgments and accounting estimates that are reasonable and prudent; and
    - (iii) prepare the financial statements on the going concern basis, considering in particular the charitable company's ability to continue in operation for at least twelve months from the date when the financial statements are expected to be approved, unless it is inappropriate to presume that the charitable company will continue in operation;
  - (c) for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the charitable company and to enable them to ensure that the financial statements comply with the relevant Statement of Recommended Practice *Accounting and Reporting by Charities* (the SORP), the *Companies Act 2006* (CA 2006) and applicable accounting standards as stated in [Key Facts](#). You are also responsible for such internal control as you determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error; and
  - (d) for safeguarding the assets of the charitable company and hence for taking reasonable steps to ensure the charitable company's activities are conducted honestly and for the prevention and detection of fraud and other irregularities.
- 1.2 As trustees of the charitable company, you have a duty under CA 2006 to prepare a directors report for each financial year and also an annual report complying in its form and content with regulations made under the *Charities Act 2011* (ChA 2011). You should also have regard to the relevant SORP published jointly by the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator, and any subsequent amendments or variations to this statement. You should follow that statement insofar as compliance with it does not contradict any requirement of CA 2006 by supplementing the requirements of that Act.
- 1.3 In addition to the general duties of directors specified in CA 2006, s. 170–177 you are responsible for ensuring that the charitable company complies with laws and regulations applicable to its activities, and for establishing arrangements designed to prevent any non-compliance with laws and regulations and to detect any that occur.
- 1.4 Unless the small companies disclosure exemption is taken, CA 2006, s. 417 requires the directors/trustees to include in their report a business review containing a fair review of the charitable company's business, and a description of the principal risks and uncertainties facing the charitable company.

- 1.5 You have agreed to provide us with:
- (a) access to all information of which you are aware that is relevant to the preparation of the financial statements such as the charitable company's books of account and all other relevant records and documentation, including minutes of all board/committee of management/trustees'/governors' meetings and other matters;
  - (b) additional information that we may request from you for the purpose of the audit, including access to information relevant to disclosures;
  - (c) unrestricted access to persons within the charitable company from whom we determine it necessary to obtain audit evidence; and
  - (d) additional information that may include when applicable, matters related to other information in accordance with ISA (UK) 720. If such information is not expected until after the date of the auditor's report, you should note that we still have a responsibility to take appropriate action if we consider a material misstatement exists in this other information.
- 1.6 You are required to confirm in the directors'/trustees' responsibility statement that:
- (a) an appropriate accounting basis was used to prepare the financial statements; and
  - (b) in so far as you are aware, there is no relevant audit information of which we, the company's auditors, are unaware and that you have taken all the steps that you ought to take as directors/trustees in order to make yourselves aware of any relevant audit information and to establish that we are aware of that information.
- 1.7 Where audited information is published on the charitable company's website or by other electronic means, it is your responsibility to advise us of any intended electronic publication before it occurs and to ensure that any such publication properly presents the financial information and auditor's report. We reserve the right to withhold consent to the electronic publication of our report if it or the financial statements are to be published in an inappropriate manner.
- 1.8 It is your responsibility to ensure there are controls in place to prevent or detect quickly any changes to that information. We are neither required to review such controls nor to carry out ongoing reviews of the information after it is first published. The maintenance and integrity of the charitable company's website is your responsibility and we accept no responsibility for changes made to audited information after it is first posted.

### *Scope of the audit*

- 1.9 In connection with representations and the supply of information to us generally, we draw your attention to CA 2006, s. 501 under which it is an offence for an officer or employee of the charitable company to knowingly or recklessly make misleading, false or deceptive statements to the auditors.
- 1.10 We expect that you will inform us of any material event occurring between the date of our report and that of the annual general meeting, which may affect the financial statements. We are entitled to receive details of all written resolutions that are to be circulated to members, to attend all general meetings of the charitable company, and to receive notice of all such meetings.

## 2 *Our responsibilities as auditors*

2.1 Our responsibility is to audit and express an opinion on the financial statements in accordance with the ChA 2011 and International Standards on Auditing (ISAs) (UK) as to whether:

- the financial statements give a true and fair view of the state of the charitable company's affairs as at the year end and of its incoming resources and application of resources in that year;
- the financial statements have been properly prepared in accordance with applicable accounting standards, as stated in [Key Facts](#);
- the financial statements have been prepared properly in accordance with the CA 2006;
- the financial statements have been appropriately prepared on the going concern basis; and
- the financial statements have disclosed any identified material uncertainties that may cast significant doubt on the charitable company's ability to continue to adopt the going concern basis for at least the next *twelve* months from the date they are approved.

In arriving at our opinion we are required by law to consider the following matters, and to report on any in respect of which we are not satisfied:

- (a) whether adequate accounting records have been kept by the charitable company; or
- (b) whether the charitable company's financial statements are in agreement with the accounting records and returns; or
- (c) whether we have obtained all the information and explanations which we think necessary for the purpose of our audit; or
- (d) whether the information in the trustees' report is consistent with that in the audited financial statements.

In arriving at that opinion those standards require us to comply with ethical requirements.

2.2 It is not sufficient for us as auditors to conclude that the financial statements give a true and fair view solely on the basis that the financial statements were prepared in accordance with accounting standards and any other applicable legal requirements. We are therefore required to consider whether additional disclosure will be necessary in the financial statements when compliance with an accounting standard is insufficient to give a true and fair view. If you are unwilling to make such additional disclosures, we will have to consider the effect on our report.

2.3 Our report will be made solely to the charitable company's members, as a body, in accordance with ChA 2011, s. 144. Our audit work will be undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for the audit report, or for the opinions we form. The audit of the financial statements does not relieve you of your responsibilities.

2.4 There are certain other matters, which according to the circumstances may need to be dealt with in our report. For example, although only auditors of listed companies are required to include key audit matters in their report, there may be rare occasions when we believe it necessary to communicate key audit matters in our report.

2.5 Under ChA 2011, s. 156(2) we have a statutory duty to make a written report to the Charity Commission on such matters (which relates to the activities or affairs of the charity or of any connected institution or body) of which we become aware during the course of our audit and which we have reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the Commission of its functions under ChA 2011, s. 156(3). In addition under s. 156(4) if we become aware of any matter which does not require to be reported under s. 156(2) but which we have reasonable cause to believe is likely to be relevant for the purposes of the exercise by the Charity Commission of any of its functions then we may make a report on the matter to the Commission. We may have to make this report without your knowledge and consent and we cannot undertake to you to fetter this discretion in any manner.

- 2.6 In addition, we have a professional duty to report if the financial statements do not comply in any material respect with the SORP or applicable accounting standards, unless in our opinion non-compliance is justified in the circumstances. In determining whether or not any departure is justified we will consider:
- (a) whether the departure is required in order for the financial statements to give a true and fair view; and
  - (b) whether adequate disclosure has been made concerning the departure.
- 2.7 Our professional duties also include:
- (a) incorporating in our report a description of the trustees' responsibilities for the financial statements, where the financial statements or accompanying information do not include such description; and
  - (b) considering whether other information in documentation containing the financial statements is consistent with the audited financial statements and our knowledge acquired during the course of the audit.
- 2.8 Where the charitable company is a subsidiary of a group, the audited accounts of this company are included in the group accounts of the parent. We are required by auditing standards to cooperate with the auditors of the parent company and to provide them with representations and confirmations concerning the conduct of the audit of this company. You agree that we may correspond with the auditors of the parent and respond to their reasonable requests for information (which may include granting them access to our working papers) concerning the preparation and audit of the group accounts without further authority from you.
- 2.9 Where the charitable company is the parent of a group and all components are audited by the same firm, the audited accounts of this company are the group accounts. As the group engagement auditors, we are required by auditing standards to coordinate the audit work on all subsidiary companies. Therefore, whilst as auditors of each subsidiary company the firm already has access to the management of those companies concerning their individual audited accounts, you agree that we may also correspond with the management of the subsidiary companies and request reasonable information concerning the preparation and audit of the group accounts without further authority from you.
- 2.10 Where the charitable company is the parent of a group and not all component auditors are from the same firm, the audited accounts of this company are the group accounts. As the group engagement auditors, we are required by auditing standards to coordinate the work of the auditors of the subsidiary companies and to provide them with guidance concerning the conduct of the audit of the group. You agree that we may correspond with the management of the subsidiary companies, and their auditors, and request reasonable information (which may include access to the subsidiary auditor's working papers) concerning the preparation and audit of the group accounts without further authority from you.

### *Scope of audit*

- 2.11 Our audit will be conducted in accordance with the ISAs (UK) issued by the Financial Reporting Council (FRC). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. We will evaluate whether the information presented in the financial statements is relevant, reliable, comparable and understandable as well as providing adequate disclosures and appropriate terminology. This includes an assessment of:
- whether the accounting policies are appropriate to the charitable company's circumstances and have been consistently applied and adequately disclosed;
  - the reasonableness of significant accounting estimates made by the directors/trustees;
  - whether there is adequate disclosure of the applicable financial reporting framework; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Trustees' Annual Report and state whether in our opinion the information given in the annual report is consistent with the accounts; whether the report has been prepared in accordance with applicable legal requirements and whether, in the light of our knowledge and understanding of the charity and its environment obtained in the course of the audit, we have identified any material misstatements in the report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

- 2.12 Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered even though the audit is properly planned and performed in accordance with ISAs (UK).
- 2.13 We will obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether the charitable company has maintained adequate accounting records. We will need to obtain relevant and reliable evidence sufficient to enable us to draw reasonable conclusions therefrom.
- 2.14 The nature and extent of our tests will vary according to our assessment of the charitable company's accounting and internal control systems, and may cover any aspects of the business's operations. We shall report to the management any significant deficiencies in, or observations on, the charitable company's systems that come to our attention of which we believe the trustees should be made aware. Any such report may not be provided to any third party without our prior written consent. Such consent will only be granted on the basis that such reports are not prepared with the interests of any party other than the members in mind and that we therefore neither have nor accept any duty or responsibility to any other party as concerns the reports.
- 2.15 As noted in section 1, the responsibility for safeguarding the assets of the charitable company and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the director/trustees. However, we will plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities, fraud or non-compliance with law or regulations, but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance that might exist.
- 2.16 As part of our normal audit procedures, we will request you to provide formal representations concerning certain information and explanations we receive from you during the course of our audit. In particular, where we bring to your attention misstatements in the financial statements which are not adjusted, we shall require written representation of your reasons.
- 2.17 To enable us to conduct a review of your financial statements, which constitutes part of our audit, we will request sight of any documents or statements which will be issued with the financial statements.
- 2.18 Once we have issued our report we will have no further direct responsibility in relation to the financial statements for that financial year. However, as noted in section 1, we expect that you will inform us of any material event occurring between the date of our report and that of the annual general meeting, which may affect the financial statements.
- 2.19 HMRC does not require the auditor to provide assurance on the XBRL tagging of the financial statements submitted to it with the Company Tax Return. In addition, the ISAs (UK) do not require the auditor to confirm the accuracy of the tagging as part of the audit. Accordingly, our audit does not cover the accuracy of the XBRL tagging in the financial statements, and we accept no responsibility for any inaccuracies identified by HMRC.
- 2.20 A fuller description of the scope of an audit of financial statements arising from the requirements of ISAs (UK), together with other legal and regulatory requirements, is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**Communication**

- 2.21 In order to ensure that there is effective two-way communication between us we set out below the expected form and timing of such communications.
- We shall contact your primary contact listed in [Key Facts](#) by telephone prior to each year-end for preliminary discussions concerning the audit. We will confirm in writing the matters discussed and any agreed action.
  - We will arrange a meeting to discuss the forthcoming audit prior to the expected start date. Again we will confirm in writing the matters discussed and any agreed action.
  - We will arrange a meeting to discuss any matters arising from the audit after completion of the detailed work. Again we will confirm in writing the matters discussed and any agreed action.
- 2.22 The formal communications set out above are the minimum required to comply with auditing standards. We shall of course contact you on a more frequent and regular basis regarding both audit and other matters.
- 2.23 We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm (principals and staff) other than those engaged on the audit, for example information provided in connection with accounting, taxation and other services.