Deloitte

Report to the Board on the 2012 Audit – 20 July 2012

Final Report

24 July 2012

Deloitte

Board of Trustees
Alexandra Palace
Alexandra Palace Way
Wood Green
London
N22 7AY

20 July 2012

Dear Sirs,

We have pleasure in setting out in this document our report to the board of Alexandra Park & Palace Charitable Trust for the year ended 31 March 2012, for discussion at the meeting scheduled for 24 July 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- There are some outstanding areas of work, which are outlined below.

We would like to take this opportunity to thank the finance team for their assistance and co-operation during the course of our audit work.

Sue Barratt

Senior Statutory Auditor

Contents

Introduction

Key findings on audit risks and other matters

Our findings on the key audit risks and other matters are as follows:

- **Revenue recognition** – we identified a risk in relation to the cut off of income in Alexandra Park & Palace Charitable Trust ("APPCT") and completeness of income in Alexandra Palace Trading Limited ("APTL"). The results of our testing proved generally satisfactory, identifying only two small misstatements, both of which were corrected by management.
- **Management override of controls**: International Auditing Standards require that we design and perform audit procedures to respond to the risk of management's override of controls. We have no matters to draw to your attention.
- **Legal matters** – On 25 March 2009, a pre-action protocol letter of claim was submitted by solicitors acting for Firoka (Alexandra Palace) Ltd and Firoka (Kings Cross) Ltd ("Firoka") against Haringey Council as trustee of APPCT. The letter asserted that the trustee was in breach of contract and intimated Firoka's intention to claim damages for breach of contract, specified as the failure of the trustee to complete the grant of a long lease of the Palace to Firoka and to enter into other related commercial agreements with Firoka. No legal claims have been made by either party and there has been no further substantive action since July 2011. Therefore management have concluded that this should continue to be disclosed as a contingent liability. We concur with their conclusion.
- **Contract with Heineken** – During the prior year, APTL entered into a significant contract with Heineken which will allow Heineken to locate the Dutch Olympic delegation's headquarters outside the Olympic Village (called 'Heineken House') at Alexandra Palace during London 2012. We reviewed the contract and considered the accounting treatment adopted by management in respect of the transactions arising during the year. We concur with the treatment adopted.
- **Defined benefit pension scheme** – APTL operates a defined benefit pension scheme for the benefit of 4 employees. The net pension liability recognised at 31 March 2012 was £466,000. We reviewed the actuarial assumptions adopted by management and concluded that they are reasonable..
- **Provision to Haringey Council** – At 31 March 2012 the total provision for Haringey Council indemnification was £45.6 million (2011: £42.9 million). The increase on the prior year relates to the ongoing operational deficits, movements in working capital and capital spend of APPCT. We concur with the accounting treatment adopted by management.
- **Going concern** – the financial statements have been prepared on a going concern basis. We have considered the basis on which management have reached this conclusion and the disclosures made in the financial statements. We have concluded that the approach taken is reasonable. We note that, as in previous years, APTL will have negative reserves after the gift aid payment to APPCT is recognised. Given this position, management requested legal advice on whether the gift aid payment should be made. Having taken this advice into account they concluded that the payment should be made. We concur with the judgement made by management.

Introduction (continued)

Identified misstatements and disclosure deficiencies
Audit materiality was £111,000 (2011: £116,000). We report all identified misstatements over £5,600. There are no uncorrected misstatements. No disclosure deficiencies have been noted as at the date of this report, however our final reviews of the draft financial statements is still ongoing. Corrected misstatements are included within Appendix 1.

Completion of the audit and the auditor's report

The status of the audit is as expected at this stage of the timetable. On satisfactory completion of the outstanding matters listed below, we anticipate issuing an unmodified audit opinion on the truth and fairness of the consolidated financial statements. We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

- Receipt of signed engagement letter;
- Receipt of signed letter of representation;
- Review of minutes of most recent board meetings;
- Finalisation of audit procedures on a number of minor points;
- Final technical review of the financial statements and review of disclosures; and
- Updating our work on the going concern review and post balance sheet events to the date of approval of the financial statements.

1. Key audit risks

The results of our audit work on key audit risks are set out below:

1.	Revenue recognition
Background	International Standards on Auditing (UK and Ireland) require us to presume that there is an increased risk of fraud and / or error in relation to revenue recognition.
Deloitte response	We identified that for APPCT there is an increased risk that revenue may be misstated through incorrect cut-off of rental income between different accounting periods and that for APTL there is an increased risk that revenue from cash-based sales may be incomplete. We performed detailed sample testing on rental income invoiced around the year end, and on income from the ice rink, food and beverage sales made in the Bar and Kitchen. Two misstatements were identified, relating to cut off where revenue was recognised in the wrong period: one in APTL totalling £9,000 and one item in APPCT totalling £10,500. Both of these have been adjusted.

2.	Management override of controls
Background	We are required to design and perform audit procedures to respond to the risk of management's override of control.
Deloitte response	We have reviewed and evaluated the design and implementation of controls around the financial reporting process, inclusive of controls over journal entries and other adjustments made in the preparation of the financial statements and have deemed these appropriate. We reviewed accounting estimates for biases that could result in material misstatements due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicated a possible bias on the part of management. No such items were identified from the work that we performed. We also performed a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements. Our understanding of the business and rationale of significant transactions did not highlight any which were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the Group and its environment.

1. Key audit risks (continued)

3.	Legal matters
Background	On 25 March 2009, a pre-action protocol letter of claim was submitted by solicitors acting for Firoka (Alexandra Palace) Ltd and Firoka (Kings Cross) Ltd ("Firoka") against Haringey Council as trustee of APPCT. The letter asserted that the trustee was in breach of contract and intimated Firoka's intention to claim damages for breach of contract, specified as the failure of the trustee to complete the grant of a long lease of the Palace to Firoka and to enter into other related commercial agreements with Firoka. The value of this claim is £6.2 million. On 26 May 2009, a detailed response was sent by solicitors acting for Haringey Council as trustee denying any liability. On 18 July 2011, further correspondence was received from solicitors acting for Firoka (Alexandra Palace) Ltd and Firoka (Kings Cross) Ltd ("Firoka") in relation to their claim against Haringey Council as trustee of APPCT, which had been previously disclosed as a contingent liability in the financial statements. No legal proceedings have yet been commenced by either party. No provision has been made in the APPCT's financial statements for either claim. FRS 12 'Provisions, contingent liabilities and contingent assets' sets out three ways of reflecting the claim in the financial statements depending upon whether it is considered to be: probable, possible or remote. Management have concluded that it is 'possible' that there could be an outflow of economic benefit as a result of a past event. Accordingly, they have disclosed the claim in a note to the financial statements.
Deloitte response	We wrote to APPCT's legal advisors as part of our normal audit procedures. They have confirmed that there has not been any further substantive action since July 2011. We have reviewed the disclosures made in the financial statements and concur that they meet the requirements of FRS 12.

4.	Contract with Heineken
Background	APTL entered into a large contract with Heineken Nederland BV ("Heineken") during the year ended 31 March 2011 which will allow Heineken to locate the Dutch Olympic delegation's headquarters outside the Olympic Village (called 'Heineken House') at Alexandra Palace during London 2012. 20% of the hire charges were received in the year ended 31 March 2011, and the remainder of the cash was received in the year ended 31 March 2012. The entire advance income is deferred at year end. In addition, some direct costs incurred in respect of this contract are deferred and included in yearend prepayments.
Deloitte response	We reviewed the contract with Heineken and confirmed that the total value of the contract was included in deferred income at year end. Although last year the deferred income was shown as non-current, we agreed that at 31 March 2012 it is correctly included in current liabilities as the event will be in the 12/13 financial year. We concur with the accounting treatment adopted by management both for revenue under this contract and the associated direct costs.

1. Key audit risks (continued)

5.	Defined benefit pension scheme
Background	APTL operates a defined benefit pension scheme for the benefit of 22 scheme members who transferred to the company on 22 November 1999. There are 4 scheme members still in the employment of APTL. The assets of the scheme are administered by Haringey Council under the provisions of the Local Government Superannuation Act. In accordance with FRS 17 'Retirement Benefits', APTL is required to account for its share of the underlying assets and liabilities of the scheme. At 31 March 2012 the net pension liability was £466,000 (2011: £349,000). The increase was principally due to actuarial losses.
Deloitte response	We have utilised our in-house actuaries to review the assumptions used in the calculation of the FRS 17 deficit to ensure that they are within a reasonable range and in line with those used by other entities. These assumptions have been selected by management based on advice from the scheme actuary. The assets of the pension scheme are part of the large London Borough of Haringey scheme. This provided some difficulties around our testing of the assets as they are not individually identifiable. For this reason, we obtained an understanding of the valuation of the assets from the actuary involved and confirmation from them on the assets included within the APTL scheme. In addition, we review the pension fund accounts to perform a high level review of assets and liabilities year on year. The assumptions selected by APTL are within an acceptable range. Selecting appropriate assumptions is not an exact science; however it is important that the directors of APTL satisfy themselves that the assumptions used are reasonable and appropriate to the specific circumstances of the scheme. Due to the sensitivity of the assumptions, small changes can have a significant effect on the deficit. In particular we note that: • The deduction to RPI used to set the CPI assumption (and hence the pension increase assumptions) is towards the lower end of the acceptable range. Therefore the pension increase assumption is towards the prudent end of the range. • The return on assets for equity and property, while within acceptable ranges, are towards the prudent end of assumptions used. We have discussed this with management in previous years and they believe that it is appropriate to use assumptions that are consistent with those used by Haringey Council. We will request a specific representation that the Trustees have considered these assumptions and believe that they are appropriate.

2. Other matters

1. Provision to the Council

Background

At 31 March 2012 the total provision for Haringey Council indemnification was £45.6 million (2011: £42.9 million).

	Accumulated balance	Interest	Total
Indemnification 1991/92 to 1994/95	5,005	9,881	14,886
Indemnification 1995/96 to 2011/12	22,450	4,854	27,304
Provision: 1988/99 to 1990/91	755	2,641	3,396
	25,490	17,376	45,586

The increase on the prior year relates to the ongoing operational deficits, movements in working capital and capital spend of APPCT. No interest charges were levied by Haringey Council in the current year. Although Haringey Council have provided for this debt in full in their own financial statements, they have not discharged the debt and therefore retain their right to repayment. On this basis management have concluded that it remains appropriate to retain the provision.

FRS 12 sets out three criteria for the recognition of a provision. If these criteria are met, a provision must be made. The criteria are that:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that a transfer of economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

In addition to this provision for Haringey Council indemnification, APPCT has recognised a loan creditor of £2.2 million relating to Haringey's 12 year loan to fund the ice rink refurbishment received in the prior year. This is in addition to the provision discussed above, and is interest-bearing.

Deloitte response

We have considered the accounting treatment against the FRS12 criteria and concur that it is appropriate to retain the provision.

2. Other matters (continued)

2.	Going concern
Background	Management have undertaken and documented their assessment of whether APPCT is a going concern. They have concluded that the entity will remain a going concern due to the ongoing financial support which Haringey Council ("the Council") is legally obliged to provide. The Council's current policy is to ensure that funds are provided to APPCT to maintain its bank balance at a pre-agreed level. This mechanism funds operational deficits, working capital movements and capital spend and ensures that APPCT is in a position to settle its third party liabilities as they fall due. Management have also undertaken and documented their assessment of whether APTL is a going concern. They have considered the following factors: • The cash balance at 31 March 2012 was £3.3 million. Due to the nature of the entity's business, cash is received in advance of events; • The entity is forecast to be profitable, with a significant profit in 2012/13 (after pension charges but before gift aid) and no significant adverse changes are expected for the remainder of the twelve month period from approval of the financial statements; and • Management have considered the deficit in the defined benefit pension scheme. They have concluded that this will not have an impact on the going concern assumption as it represents a long term liability which will not crystallise in the coming twelve months. Management have concluded that it is appropriate for APTL to prepare its financial statements on a going concern basis.
Deloitte response	We have reviewed the assessment performed by management. We concluded that it meets the requirements of the FRC guidance. We concur with management's conclusion. We note that, as in previous years, APTL will have negative reserves after the gift aid payment to APPCT is recognised. Management requested legal advice on whether the gift aid payment should be made and considered in the light of this advice the likelihood of any challenge to the payment which might give rise consequent tax liability. Their conclusion was that the probability of a challenge was remote and that the gift aid payment should therefore be made.

3. Accounting and internal control systems

Control observations

During the course of our audit we identified the following control observations:

Risk register	
Description	There was a lack of consistency within the risk register reviewed at the time of the audit, and some of the assumptions made appeared unnecessarily pessimistic. The lack of consistency and coherence within the register makes it less useful for the management team to identify and mitigate risks affecting the charity
Recommendation	The current format and purpose of the risk register should be reviewed and changes made to make it easier to use and an integral part of management. It should also be reviewed regularly. We noted an update was made in July 2012 following our discussions on this point with management.
Management response	Agreed. A revised register has been drawn up and we will implement these recommendations going forwards.
Timeframe:	Immediate
Owner:	Senior management team

Community events - cut-off	
Description	It was noted from our testing that the Circus event in April 2012 was recognised as income in 2011/12 when billed, although it occurred in 2012/13 and should therefore have been deferred and recognised in the following year. This error led to a highly immaterial overstatement of revenue and accrued income which was subsequently corrected by management.
Recommendation	It is recommended that controls be put in place to prevent this from continuing to occur, with a reconciliation of events income and a review of events held in the year to ensure no items are incorrectly recognised.
Management response	The controls around events income in APPCT are not as strong as those which exist in APTL, and this issue will be rectified following implementation of the new accounting system.
Timeframe:	During the current financial year
Owner:	Nigel Watts

3. Accounting and internal control systems (continued)

Agreement with GSR	
Description	APTL uses a third party stock counter (GSR). From discussions with the Catering department at APTL, we understand that no formal written agreement exists with this party. This is likely to be due to significant staff changes since the contract was signed.
Recommendation	It is recommended that a contract is put in place.
Management response	GSR and APTL have been working together for several years with no issues, but it may be worth issuing an updated agreement in order to clarify the position of both entities. A new catering manager is starting in July. He is likely to want to get the department in order then so it will be left until then to be actioned.
Timeframe:	Immediate
Owner:	Catering Manager

4. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) we are required to report to you on the matters listed below.

Confirmation

We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services

In our opinion there have not been any breaches of APB Revised Ethical Standards for Auditors in respect of the supply of non audit services.

Fees

Details of the non audit services provided by Deloitte and the fees charged in relation thereto in the period from 1 April 2011 to 31 March 2012 are presented below.

	2012 £	2011 £
Fees payable to the Trust's auditors for the audit of the Trust's annual accounts	17,500	16,840
Fees payable to the Trust's auditors for the audit of the Trust's subsidiary pursuant to legislation	16,000	15,340
Audit services provided to all group entities	33,500	32,180
Taxation services	3,000	3,250
Preparation of new template for the financial statements	-	1,500
All other services	3,000	4,750
Total	36,500	36,930

Relationships

There are no business or personal relationships between us and Alexandra Park and Palace Charitable Trust, its trustees and senior management and its affiliates.

5. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" attached as Appendix 2 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Board of Trustees, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP

Chartered Accountants

London
20 July 2012

Appendix 1: Audit adjustments

Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

We only report to you uncorrected misstatements that are not clearly trivial which is defined as all adjustments greater than £5,600.

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £5,600 in the table below.

		(Charge) to current year SOFA £	Increase/ (decrease) in current or fixed assets £	(Increase)/ decrease in liabilities £	(Decrease) in income £
Factual misstatements					
Revenue recognised in the incorrect period – APPCT	[1]	(10,500)	-	(10,500)	(10,500)
Revenue recognised in the incorrect period – APTL	[1]	(9,000)	(9,000)	-	(9,000)
Incorrect calculation of the Lengard Accrual	[2]	-	33,150	(33,150)	-
Total		(19,500)	24,150	(43,650)	(19,500)

[1] See Section 1

[2] During our testing of accruals, it was noted that there was an accrual relating to work performed by Lengard on the ice rink. Our testing showed an under accrual of £33,150 and an associated undervaluation of fixed assets. This was adjusted by management.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. No disclosure deficiencies have been noted to date, however our final technical review of the financial statements is still on going.

Appendix 2: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the trustees on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with UK GAAP;
- to express an opinion as to whether the accounts have been prepared in accordance with the Charities Act; and
- to form an opinion on whether adequate accounting records have been kept by the charity.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

Materiality (cont'd)

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also local considerations of subsidiaries and divisions of the group, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

For local statutory reporting purposes, individual materiality levels will be set for each of the subsidiary companies.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give trustees the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

Safeguards and procedures (cont'd)

- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Appendix 3: Technical update

Planning for the future of UK Generally Accepted Accounting Principles ("UK GAAP")

In January 2012, the Accounting Standards Board ("ASB") published its revised proposals for the future of reporting in the UK and the Republic of Ireland in the form of three exposure drafts:

- draft FRS 100 – setting out the accounting framework;
- draft FRS 101 – proposing a reduced disclosure regime for members of a group preparing accounts under full IFRSs; and
- draft FRS 102 – a single Financial Reporting Standard applicable in the UK and Republic of Ireland to replace current UK accounting standards. It also sets out a reduced disclosure framework for members of a group preparing accounts under FRS 102.

Based on feedback to its 2010 proposals, the ASB proposed extensive amendments to the proposed three tier reporting framework in the UK, and FRED 45 which focused on accounting for public benefit entities. The vision is a replacement of current UK GAAP with a single standard, based on the International Accounting Standards Board's (IASB) *IFRS for SMEs*, for those currently within its scope, plus reduced disclosure regimes for qualifying subsidiaries of parents that report under full IFRSs or UK GAAP. It results in a Financial Reporting Standard (FRS 102), which is closer to current UK GAAP than the 2010 proposals, but with improvements.

Key changes to the previous proposals include:

- reference to 'public accountability' eliminated so that there is no mandatory extension in scope of full IFRSs;
- income tax simplified;
- principle for amending the *IFRS for SMEs* extended so that existing accounting treatments in FRSs, that are aligned with EU adopted IFRSs, are allowed, e.g. capitalisation of development costs and revaluation of property, plant and equipment;
- guidance for public benefit entities incorporated in the FRS (specific areas are prefaced with "PBE"); and
- FRSSE to be retained but amended once EU changes to small company accounting are finalised.

The period of consultation on the revised proposals has just ended and the final standards are likely to be issued later in 2012. In respect of charities, the current proposals appear to have confused the definitions of restricted income and performance conditions and we expect that this to be resolved when the final standards are published.

Impact on UK charities

Particular areas where UK charities may be impacted are:

- Income from donations – the previous proposals required all donated goods to be included as income from the date of receipt and the revised proposals allow the charity more discretion over whether the income can be reliably measured and whether the benefits outweighs the costs;
- Financial instruments – derivatives will be held on balance sheet at fair value;
- Investments – listed investment and investment property revaluations will not be put at the bottom of the SOFA in other recognised gains and losses but will be required to be included with other income and expenditure;
- Pension schemes – the treatment of where pension scheme movements go in the SOFA will be aligned with IFRSs. No multi-employer exemption will be available where entities are under common control.

The Charities SORP will be revised to give more guidance on the accounting treatment under the new standard.

Effective Date

The new regime is expected to come into force for periods commencing on or after 1 January 2015. A March year end reporter would first prepare financial statements under the new standard for the year end ended 31 March 2016. Early adoption will be possible once the revised SORP has been issued.

Appendix 3: Technical update (continued)

Other updates	
Charities Act 2011	With effect from 14 March 2012, the Charities Act 1993 has been superseded by the Charities Act 2011. Therefore, regardless of the period the report relates to, all reports which have previously referred to the Charities Act 1993 should be updated to refer to the Charities Act 2011.
Approved Alterations to Listed Buildings	There is a change to remove the VAT zero rate for approved alterations to protected buildings. This will apply to both listed residential dwellings as well as listed buildings used for charitable and other residential purposes. It does not apply to supplies of repairs and maintenance which are already subject to VAT. For VAT purposes a protected building is a listed building or scheduled monument that is (or will become on completion of the work) a dwelling, a residential building such as a nursing home or student accommodation; or a building used by a charity for non-business purposes. The change removes zero rating from building materials and construction services supplied in the course of an approved alteration to a listed building. The change will be introduced with effect from 1 October 2012. However, where a signed contract was in place before 21 March 2012, works specified in that contract will continue to benefit from the zero rate provided the works are performed before 20 March 2013. Any works performed after that date will be subject to VAT at the standard rate. HMRC have recently finished a consultation period. It is possible that there may be changes to the proposed legislation, or to the transitional rules, following feedback received during that consultation. Please note that works of repair and maintenance to protected buildings are standard-rated for VAT purposes and alterations to all other types of building are also standard-rated. Zero-rating also applies to the first grant by a developer of a major interest in a substantially reconstructed protected building. This zero-rating provision is not affected by the change.
Energy saving materials in charity buildings	At present, the installation of energy saving materials in buildings used for non-business purposes by charities qualifies for the 5% rate of VAT. Legislation to remove the relief from such work (and hence to make it liable to VAT at the standard rate) is to be introduced in the Finance Bill 2013. The 5% rate will continue to be available for energy saving materials installed in residential accommodation (including that owned and operated by charities).
VAT cost-sharing exemption	The VAT cost-sharing exemption is a provision in EU law that allows businesses and organisations making VAT exempt and/or non-business supplies to form cost-sharing groups to achieve cost savings and economies of scale whilst reducing the burden of irrecoverable VAT. The Government is planning to introduce this provision into UK legislation. Currently, the irrecoverable VAT creates a barrier to the sharing of costs and services by these businesses and organisations. The cost-sharing exemption aims to remove this barrier in certain circumstances.