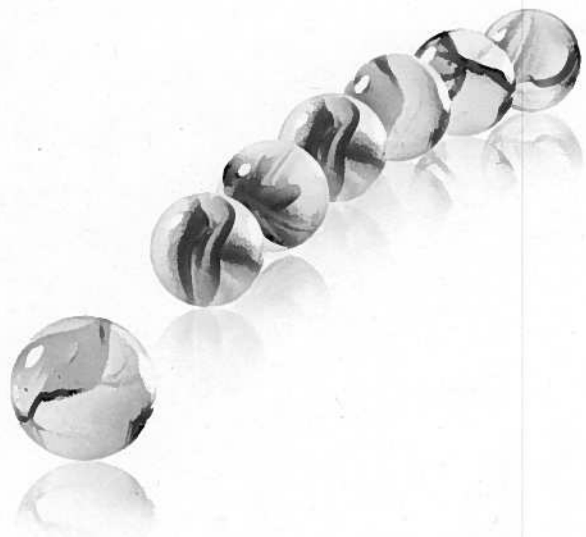
Deloitte.

Alexandra Palace

Our Final Report to the Finance, Risk and Audit Committee on the 2013 Audit



4 July 2013

Deloitte*Audit*: Promoting excellence in the boardroom

Deloitte.

Deloitte LLP
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.co.uk

Board of Trustees
Alexandra Park and Palace Charitable Trust
Alexandra Palace
Wood Green
London, N22 7AY

4 July 2013

Dear Sirs,

We have pleasure in setting out in this document our report to the Finance, Risk and Audit Committee of Alexandra Park and Palace Charitable Trust (APPCT) and its subsidiary Alexandra Palace Trading Limited (APTL) (together "the Group") for the year ended 31 March 2013, for discussion at the meeting scheduled for 9 July 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- The major audit areas, 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.
- Work is continuing on the trustees' report. We will be in attendance at the meeting on 9 July 2013 and will give a verbal update at that time.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

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

Sue Barratt
Senior Statutory Auditor

Contents

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

The big picture

The big picture

Focus on the future

- Our work is **substantially complete** and we remain on timetable to issue an unmodified opinion.
- We have identified **no material issues** and have **no uncorrected adjustments.**
- Our work has highlighted **no material disclosure deficiencies,** however review of the trustees report is still outstanding.
- We have noted no major issues with your financial reporting control environment, however we **have six control insights** to draw to your attention.
- We note that ambitious plans for development are being developed. In light of this we encourage the trustees and management to consider the structure of the Group, including the capitalisation of, and activities performed, in each entity.
- We did not identify any instances of fraud.
- A copy of the representation letter to be signed on behalf of the board is included at Appendix 2.
- 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. (See Appendix 1 for further detail).

Status report

Our work is substantially complete and we will report to you by exception if any significant matters arise

- ✓ work is substantially complete
- ✓ expect to issue an unmodified audit opinion
- ✓ completed our work on the significant risks identified as part of our audit and communicated to management, with the exception of finalising the disclosure regarding Firoka:

Completeness and cut-off of income

Fund accounting

Claim from Firoka

Provision for amounts due to LBH

Actuarial assumptions for pension scheme

Going concern

Migration of information to new accounting system

Management override of controls

The section on significant risks considers the areas of critical accounting policy and use of judgement, as set out in the financial statements.

We have the following principal matters to complete:

- Receipt of signed engagement letters;
- Review of the Trustees' Report and financial statements;
- Completion of our quality assurance reviews;
- Receipt of declarations of interest of trustees;
- Confirmation from Haringey that there is an allocation to APPCT in the budget for the coming year;
- Response to legal letter request for APPCT;
- Subsequent events review;
- Receipt of management's representation letter; and
- A small number of other minor outstanding requests.

Insights

Key insights identified during the audit

Insight	Recommendation
Tracking of fixed assets	Currently, fixed assets are capitalised on an invoice rather than an asset basis. With the significant developments planned, we encourage management to capitalise assets on an asset basis to ensure they can be more easily identified and tracked in future years. In addition, more information should be added to the asset record on IRIS to facilitate physical identification.
Change in method of depreciation	For certain classes of assets, a reducing balance method of depreciation is used. This has led to some items with very small net book values. We recommend that management review the assumptions and methods for depreciation and consider writing off old and immaterial reducing balance items.
Write off unidentifiable assets	There is a large gross balance (£34,000 net book value) of unidentifiable assets relating to before detailed fixed assets records were retained. While we have not proposed an adjustment because a quantity of old assets clearly do exist and are in use, we recommend that these gross balances are written off over a period of time.
Contracts with suppliers not held	During the course of our testing we noted that, for some suppliers, contracts were not held by management and could not be found on request. We recommend that, for suppliers where no contract can be found, management review the operations and consider signing new agreements.
Journal dates can be changed retrospectively	During testing it was noted that management could alter the date on a journal after it had been posted. We recommend this functionality is turned off to allow a full audit trail.
Improve controls around cash count	We note that when a cash count is performed, there is sometimes only one person present. We recommend a second person be present at all counts. We also suggest that all counts are signed off on paper forms by both parties and these forms are kept as a record that the checks have been performed.

Scope of work and approach

Scoping of material balances

At the planning stage we performed an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enabled us to determine the scope of further audit procedures to address the risk of material misstatement.

We calculated materiality as £123,000 (2012: £112,000) for APPCT and £150,000 (2012: £136,600) for APTL. Consolidated materiality is set at £160,000 (2012: £136,000).

In respect of the following balances we determined that these account balances, classes of transactions or disclosures did not require further audit procedures because our risk assessment, taking into account qualitative factors, resulted in us assessing the risk of material misstatement as remote:

APPCT	APTL
Deferred income £18,000	Stock £83,000
Trade debtors £26,000	Prepayments £26,000
Loans payable £153,000	Other creditors £23,000
	Interest receivable £7,000

For these balances we obtained a thorough understanding of the balance and the reason for the movement since the prior year, and reviewed the breakdown for unusual or significant items. No issues were noted and therefore we did not perform any further testing.

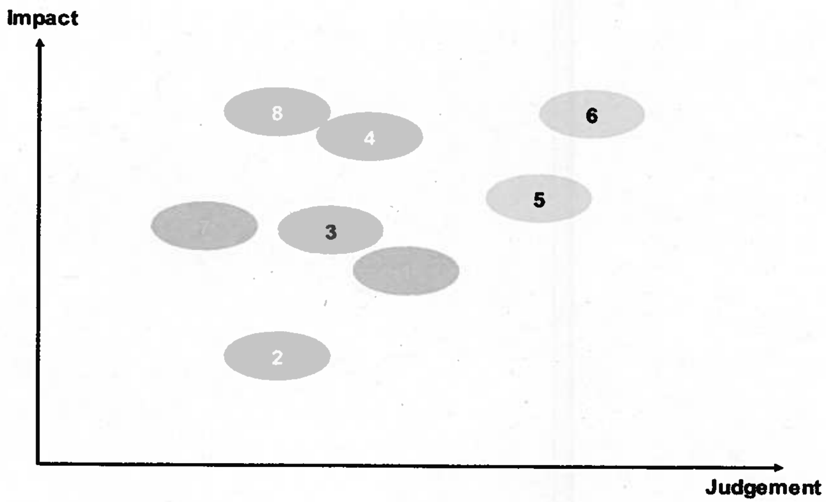
Assessing risk in account balances is key to our audit approach

Significant audit risks and other matters

Summary of significant audit risks

Key areas of judgement focused upon during the audit

The risk graph below illustrates the key audit risks focused upon where Deloitte identified areas which comprised the highest level of judgement and impact on the financial statements.



1. Completeness and cut-off of income
2. Fund accounting
3. Claim from Firoka
4. Provision for amounts due to LBH
5. Actuarial assumptions for pension scheme
6. Going concern
7. Migration of information to new accounting system
8. Management override of controls

NB: Key controls over each significant risk and how they could be improved has been included on each slide. Controls are assessed in line with the following:

Key:

- No issues noted
- Satisfactory – minor observations or disclosure points only
- Requires improvement
- Significant improvement required

Significant audit risks (continued)

Completeness and cut-off of income

Risk

Under International Standards for Auditing, we are required to identify a risk of fraud in revenue recognition. 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.

Work performed

We tested the design and implementation of controls over the capture, processing and disclosure of rental and cash-based sales income streams.

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.

Findings

No issues were identified in our testing.

We identified no misstatements, which was a significant improvement on the prior year.

Significant audit risks (continued)

Fund accounting

Risk

One of the key risks for a charity with restricted funds, like APPCT, is that restrictions are correctly identified when income is received and expenditure is correctly matched against restricted funds.

Work performed

We tested the design and implementation of controls over the capture of restrictions for income, the matching of expenditure to restrictions, and the presentation of restricted funds in the financial statements.

We performed detailed testing on a sample of income, checking that both restricted and non-restricted items were identified correctly. We tested a sample of expenditure against restricted funds to determine whether it was appropriate.

Fund transfers were reviewed to assess whether they were appropriate.

Findings

We identified no issues around the restriction of income, with the only restricted funds received being the capital grant from LBH, income from English Heritage and a donation towards the new organ keys. The LBH funds were transferred to unrestricted once the amounts were spent on fixed asset improvements. The income from English Heritage was all spent in the year on plans and fees related to redevelopment and a portion of the donation for organ keys remains at year end within restricted funds.

We identified no issues around the treatment of restricted funds

Significant audit risks (continued)

Claim from Firoka

Risk

In 2009, LBH received a pre-action protocol from Firoka for a total claim of £6.2m. In previous years, management have deemed the chance of this being paid out as "possible" and as such it has been disclosed in the accounts as a contingent liability.

Work performed

We discussed with management the position of the Firoka claim, and reviewed Trust Board minutes from the year and responses to legal confirmation request letters. Management informed us that, as there has been no further correspondence from Firoka ,they now consider the likelihood of any claim being brought to be "remote".

Findings

We concur with management that, as no correspondence from Firoka has been received in the year (or since July 2011), the possibility of a claim is now remote. This would indicate that no disclosure needs to be made; however we understand that LBH is currently planning to disclose this contingent liability in their financial statements so discussions are on-going to determine how to present this consistently.

Confirmation from Bates, Wells & Braithwaite that no correspondence has been received regarding Firoka is currently outstanding.

The likelihood of having to pay out for this claim is now considered remote

Discussions are on-going regarding whether there will be a disclosure

Significant audit risks (continued)

Provision for amounts due to LBH

<u>Risk</u>

At year end a provision of £46.3m (2012: £45.5m) was in place for amounts due to LBH. The increase on the prior year relates to the on-going operational deficits, movements in working capital and capital spend of APPCT. No interest charges were levied by Haringey Council in the current year.

<u>Work performed</u>

We have considered the accounting treatment against the FRS12 criteria for recognition of a provision. We have tested the reconciliation of the provision provided by management and also considered the possible impact of a post year end write off of the debt.

<u>Findings</u>

We concur with management, as in previous years, that until and unless Haringey Council agrees to write off the debt, it is appropriate to retain the provision.

Our testing of the provision was satisfactory

Significant audit risks (continued)

Actuarial assumptions for the pension scheme

Risk

The assumptions underlying the calculation of the FRS 17 pension deficit in APTL are an area of significant management judgement. Furthermore, the value of the deficit is sensitive to small changes in the assumptions selected.

Work performed

We reviewed the valuation received from the actuary and compared the assumptions used to the range of assumptions which we are seeing in the market at 31 March 2013.

Findings

We concluded that on the whole the assumptions used to calculate the pension deficit are within an acceptable range. The inflation rate used is slightly above the majority of comparators and is therefore considered prudent, and the life expectancy of current pensioners is slightly below the majority of comparators and is therefore considered slightly optimistic. Overall the assumptions are considered to be appropriate to calculate a reasonable estimation of the pension liability. Assets recognised are based on an allocation of total scheme assets done by the actuary. Our work on the allocation showed it was in line with prior years.

Key assumption	Your rate	Majority comparator range	Conclusion
Discount rate (% pa)	4.5%	4.3% - 4.5%	●
Inflation (% pa)	3.6%	3.3% - 3.5%	●
Life expectancy (current)	21.9	22 – 24 years	●
Life expectancy (future)	23.3	23 – 25 years	●

The majority comparator range is the range between the lower and upper quartiles.

The assumptions used to calculate the pension deficit are within an acceptable range.

● Rate within majority comparator range

● Rate just outside majority comparator range but considered appropriate

Significant audit risks (continued)

Going concern

Risk

Due to the level of deficit built up in the Trust and the on-going operational deficits, only the continued support of Haringey will allow the Trust to continue. Due to the net liabilities position of APTL, the directors must be confident that the company can meet its obligations as they fall due.

Work performed

For APPCT, we have requested confirmation from LBH that they are included in the budget for the coming year, however this has not yet been received. In addition, as in previous years, both the Trustees and we are relying on the legal opinion that LBH must continue to support the Trust due to the Act of Parliament. For APTL, we have reviewed the assessment performed by management. We concluded that it meets the requirements of the FRC guidance.

Findings

As in previous years, APTL will have negative reserves after the gift aid payment to APPCT is recognised and there is a lack of clarity in law as to whether the gift aid payment is a distribution to the parent and can be made in the absence of reserves. In the prior year management obtained legal advice on whether the gift aid payment should be made and considered that the likelihood of any challenge to the payment which might give rise to a consequent tax liability was remote and that the gift aid payment should be made. We understand that the payment will be made this year on the same basis. As we noted last year, we recommend that further consideration is given to dealing with the net liability position, which may also be helpful in negotiating with suppliers, and for future regeneration plans. New going concern guidance recently published in draft form is likely to require a view of a longer period than 12 months from date of signing, and consideration of solvency as well as liquidity.

We concur with the judgement made by the Trustees and Directors that both entities are a going concern.

We encourage the Directors of APTL to consider how the company might be appropriately capitalised.

Significant audit risks (continued)

Migration of information to new accounting system

<u>Risk</u>

During the year a new accounting system, IRIS Exchequer, was implemented. This involved a migration of data from the old system to the new one, which creates a risk of data loss.

<u>Work performed</u>

We reviewed the ledgers in both the old and new systems to assess whether there was any data loss. In addition we reviewed the functionality of the new system.

<u>Findings</u>

We noted no issues around the migration of data onto the new system, and we have observed that it is an improvement, particularly in the availability of project accounting ledgers and the need for less manual intervention and manipulation of the figures for preparation of the accounts.

We have noted one insight relating to the journal controls in place on the system.

We noted no issues around the data migration and have observed that the new system is a significant improvement

Significant audit risks (continued)

Management override of controls

<u>Risk</u>

We are required to design and perform audit procedures to respond to the risk of management's override of controls.

<u>Work performed</u>

We 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.

We reviewed a sample of journals to determine whether there was an appropriate business reason and the items had been processed appropriately, focussing on journals which demonstrated characteristics that could be indicative of fraud.

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. We also performed a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.

<u>Findings</u>

No issues were noted in our testing.

No issues were identified in our work to respond to the risk of management's override of controls

Responsibility statement

Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you with this report 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Deloitte LLP
Chartered Accountants
London
4 July 2013

Appendix 1: Independence and fees

Independence and fees

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

Independence 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.
Fees	Details of the non-audit services fees charged by Deloitte in the period from 01 April 2012 to 31 March 2013 are presented on the following slide.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the charity's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	The following slides provides details of all the relationships (other than the provision of non-audit services which are covered above) we have with the Group, its trustees and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

Independence and fees (continued)

The professional fees earned by Deloitte in the period from 1 April 2012 to 30 March 2013 are as follows:

	Current year £'000	Prior year £'000
Audit of charity	16,250	16,000
Audit of subsidiary	16,250	16,000
Reporting to LBH's auditors for the purpose of consolidation	1,500	1,500
Total audit	34,000	33,500
Tax compliance services (i.e. related to assistance with corporate tax returns)	3,250	3,250
iXBRL tagging	650	650
Services relating to taxation	3,900	3,900
Total non-audit services	3,900	3,900
Total fees	37,900	37,400

Independence and fees (continued)

As part of our obligations under International Standards on Auditing (UK & Ireland) and APB Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity:

Relationship / Service provided	Threats to auditor independence	Safeguards in place
The APTL tax computations and disclosures are calculated by a Deloitte tax team	Self review threat	Separate teams and partners are in place to mitigate the risk
Governance review of Alexandra Palace performed for LBH	Management threat	Separate teams and partners are in place to mitigate the risk; work was advisory in nature only. This work was billed to LBH.

Appendix 2: Letter of representation

Draft letter of representation

This letter will be signed on behalf of the Board of Trustees

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

[Date]

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Alexandra Park and Palace Trust and its consolidated financial statements for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Alexandra Park and Palace Trust as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework and the Charities Act 2011.

We acknowledge as trustees our responsibilities for preparing financial statements for the charity and its consolidated financial statements which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Charities Act 2011 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of FRS8 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. There are no uncorrected misstatements or disclosure deficiencies.

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the charity or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the charity's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. Having considered our income streams and based on management's close monitoring of donations, response rates and appeals for funds we are satisfied that the total value of income as reported is not materially misstated.

8. All grants, donations and other incoming resources, the receipt of which is subject to specific restrictions, terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.

9. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

10. We confirm that:

- All retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- All settlements and curtailments have been identified and properly accounted for;
- All events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- The actuarial assumptions underlying the valuation in the scheme liabilities (including the discount rate) accord with the trustees' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- The actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- The amounts included within the financial statements derived from the work of the actuary are appropriate.

Information provided

11. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

12. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

13. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

15. We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.

16. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

17. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

18. We have disclosed to you the identity of the group related parties and all the related party relationships and transactions of which we are aware.

19. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.

20. We have drawn to your attention all correspondence and notes of meetings with regulators, including, any serious incident reports.

21. We acknowledge the circumstances surrounding the gift aid from APTL and consider the likelihood of a challenge resulting in a liability to return the gift to APTL or to pay tax is remote.

22. We have considered the Firoka claim received in 2009 and the fact that no correspondence has been received since 2011. We consider that the likelihood of an outflow of resources is remote and therefore that no disclosure of a contingent liability should be made in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Board of Trustees

Appendix 3: Fraud considerations

Fraud considerations

The following represents a reminder of the fraud enquiries made at the planning stage of the audit:

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional
- Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the processes in place in relation to the prevention and detection of fraud and none were discovered in the year

Responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Concerns

- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appendix 4: Corrected misstatements

Audit adjustments: Corrected misstatements

Corrected misstatements

We identified the following items during our audit which have been corrected by management. We report to you all items over £8,000.

Account	Description	Amount £	Entity
Debtors	Re-class debtors on the creditors ledger and creditors on the debtors ledger	103,906	APTL
Creditors		(103,906)	APTL

Appendix 5: Important future developments

Important future developments

The future of ukGAAP

Background	FRS 102 "The Financial Reporting Standard Applicable in the UK and Ireland" was published in March 2013 and replaces current UK GAAP. For periods beginning on or after 1 January 2015, charities will need to move to FRS 102. However, the FRSSE will continue to be an option for those within its scope, regardless of whether they currently adopt it. The option to move to EU-adopted IFRSs or FRS 101 remains unavailable to charities. A new Charities SORP will assist in interpretation of the new standard, with consultation expected during the summer of 2013. It is not expected that early adoption of the SORP or FRS 102 will be possible. The revised SORP will be modular in approach and amongst other changes is expected to set out a simplified SOFA, and place greater emphasis on the disclosures relating to risk management and going concern in the trustees' report.
Potential impact on the Group	The key areas of accounting impact for APPCT are likely to be: • **Multi-employer pension schemes** – where an employer has entered into an agreement with the scheme that determines how it will fund the deficit, the liability for those agreed contributions may need to be recognised as a provision depending on the extent to which it is clear the agreed contributions only cover past service deficits. • **Income recognition** - criteria under FRS 102 focus on when income receivable is "probable" rather than "virtually certain". In many cases, there will be no difference as these hurdles are to all intents and purposes reached at the same time. However, in cases where recognition is delayed until receipt the income may need to be recognised earlier. • **Employee benefits** - short term benefits, such as holiday pay which can be carried over from one financial year to the next, would need to be recognised as a liability. • **Accounting for grants** – a new method, the performance method, is introduced for accounting for non-government grants, and as an option for government grants. It is expected that the SORP will require this method to be used for all grants. It may mean that some grant income is recognised earlier in the financial statements than currently.
Effective date	FRS 102 applies for periods beginning on or after 1 January 2015. The opening balance sheet for March 2016 financial statements will be 1 April 2014, which means that during 2013/14 APPCT will need to start planning their approach.

Important future developments (continued)

<table>
<tr><th>Other updates</th><th></th></tr>
<tr><td>Lord Hodgson's report</td><td>The Review (Trusted and Independent: Giving charity back to charities - Review of the Charities Act 2006) was published in July 2012. The review aimed to assess what the effect of the 2006 Act has been to date, and to look forward to see if the framework it created will be fit for purpose in future.

The Review laid out some 100+ individual recommendations regarding the various difficulties and anomalies of charity law, noting also that there remain some areas of the Act which have yet to be implemented. However, the Review reports that the recommendations "for the most part represent evolution not revolution (social investment regulation being perhaps the exception)".

Some of the recommendations which may impact APPCT the most are:
• Recommendations regarding revised Charity Commission guidance on Charitable Purposes and Public Benefit
• Charity reports should focus more on the impact of activities rather than the process</td></tr>
<tr><td>Changes to pensions legislation</td><td>New legislation will soon come into effect requiring businesses to automatically enrol their new employees into a qualifying pension scheme. These new duties, designed to increase levels of workplace pension saving, are being staged in between 1 October 2012 to 1 February 2017 - starting with larger employers first.

The duties will apply to a new tranche of employers on a monthly basis. By 1 January 2014, any employer with 350 or more staff on its books will be obliged to enrol those employees who are eligible into a Qualifying Pension Scheme. The phasing will apply to employers with less than 350 staff over the remaining period to 1 February 2017, more information is available at: http://www.legislation.gov.uk/uksi/2010/4/regulation/4/made

Eligible employees must be auto-enrolled into a Qualifying Pension Scheme that provides minimum levels of benefits. Where the employer uses a defined contribution arrangement, the employer will have to ensure that a least a minimum level of contributions are paid. The minimum level of contributions will be phased in rising to 8% of Qualifying Earnings, of which the employer will have to pay at least 3%. Qualifying Earnings are earnings between £5,668 and £41,450 (2013/14).

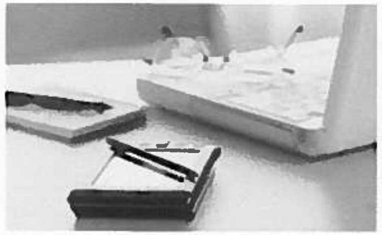
Although this impacts on an employer's pension provision, it is not just a pensions issue. Achieving compliance is likely to require changes to payroll, HR and communications processes. Proactive planning now can help employers identify what they need to do to comply with the new duties as well as what options are available to mitigate any increase in costs and disruption to existing business processes.</td></tr>
</table>

Important future developments (continued)

Other updates	
Charity Commission publications	The Charity Commission has published a checklist in December 2012 for Trustee Boards entitled **Big Board Talk - 15 questions Trustees need to ask**. The checklist is designed to be used as a template to help structure discussion or prompt agenda items at board meetings, away days or planning meetings. The areas of focus are strategy, financial health, governance and making the best of resources.
Audit exemption for subsidiaries	In late 2012, the Companies Act 2006 was amended to provide a new exemption from audit for subsidiaries with an EEA parent that is willing to guarantee the subsidiaries' debts and liabilities. Dormant subsidiaries with such a guarantee are additionally exempt from preparing and filing financial statements. These changes take effect for accounting periods ending on or after 1 October 2012. The Charity Commission has issued guidance to clarify that a charity cannot give such a guarantee to a non-charitable subsidiary because it risks charitable funds being used for a non-charitable purpose were the guarantee to be called upon.

Appendix 6: Additional resources available to you

How we keep you up to date

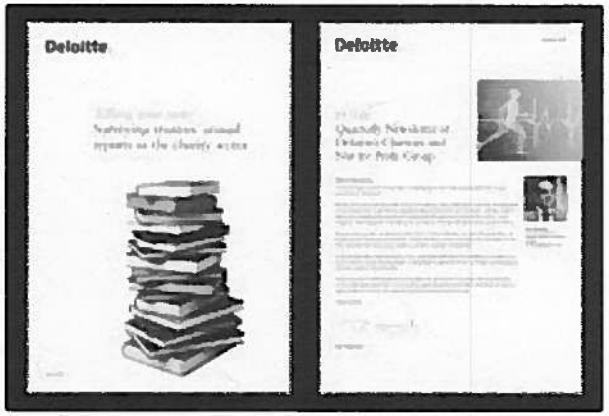


Training

We offer a huge variety of training and learning opportunities for Charities and Not for Profit clients and contacts. These help staff and clients not only meet any continuing professional development requirements but enable us to stay at the forefront of thought and innovation in the sector. Our offerings range from technical updates to discussion lunches and at the request of clients we may devise specific training courses. We also have a specific programme designed for Trustees.

Publications

We publish informative research, relevant studies, publications, surveys and reports, including the "PULSE" quarterly newsletter, used to debate and discuss items of interest, with contributions from both Deloitte and experts in the wider industry, and an annual survey of trustees' reports.



Our website www.deloitte.co.uk/charitiesandnotforprofit has links to our publications and training programmes; alternatively please talk to us if you want to be added to the mailing list.

Appendix 7: Briefing on audit matters

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.

Briefing on audit matters (continued)

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:

"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.

Briefing on audit matters (continued)

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

Briefing on audit matters (continued)

Independence policies and procedures

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.
- In the UK, statutory oversight and regulation of auditors is carried out by the Financial Reporting Council (FRC). The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT 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.

Briefing on audit matters (continued)

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.

Deloitte.