

AUDIT NEWS

INTRODUCTION

Welcome to the first 2013 edition of Audit News. We have also released our Audit Monitoring Annual Report 2012, which provides our summary of key findings from our 2012 monitoring visits and is designed to provide firms of all sizes with some points to consider in upcoming audit engagements. It

is also a useful reference tool when conducting cold file reviews as part of an Audit Compliance Review and can be accessed at: icas.org.uk/home/regulation-and-ethics/audit-monitoring/annual-reports-on-monitoring-activities/

This edition also includes articles on

the continuing eligibility requirements of audit firms; the importance of completing the annual return accurately; and an announcement of the release of specialist and regulated audit helpsheets.

We hope you find this edition of Audit News useful and relevant.

WHAT ARE THE MAIN ELIGIBILITY REQUIREMENTS OF AN AUDIT FIRM?

The Audit Monitoring team have been asked a number of questions recently relating to the continuing eligibility requirements of firms registered with ICAS to conduct audit work.

Put simply, Audit Regulation 2.03 states that, where an audit firm is not a sole practice, then each principal must be a member of ICAS, ICAEW, ICAI, ACCA or an Affiliate of the registered body and the firm must be registered and approved with one of the Recognised Supervisory Bodies (RSBs).

Audit firms are required by the Audit Regulations to ensure that:

'Individuals who have an appropriate qualification, or are Registered Auditors ... hold at least a majority of the voting rights, and voting rights in the management board, or hold such rights under the firm's constitution as enable them to direct its overall policy or alter its constitution.'

It should be emphasised that the Audit Regulations require a majority of voting

rights and 50% is not sufficient to meet these requirements.

What is 'an appropriate qualification' and is this different from RI designation? The 'appropriate qualification' is commonly known as the 'audit qualification' and must have been obtained from an RSB, which in the UK and ROI refers to the three Institutes and ACCA.

The audit qualification is awarded to ICAS members, and members of other RSBs, who have demonstrated that they have achieved sufficient knowledge and supervisory experience in audit, through examination and work experience gained within an Authorised Training Office.

Initially, the audit qualification was automatically awarded, however the requirements were changed by the 1989 Companies Act, meaning that, since the 30th September 1991, the qualification must be applied for. This is obtained through providing evidence of UK audit experience by recording of such in the ICAS Achievement Log, including at least 210 days of UK audit experience.

What if I qualified prior to 1991?

Individuals who held an appropriate qualification under the previous legislation are 'grandfathered in'.

In the UK, if you were a member of one of the Institutes or ACCA on both 31 December 1989 and 30 September 1991 you are deemed to hold the audit qualification.

Only a member holding the audit qualification counts towards the control percentage as stipulated in the Audit Regulations. An individual does not, however, have to be a Responsible Individual (RI).

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It is important to still note, however, that the audit qualification is not sufficient to authorise an individual to sign audit reports, and this can only be done by those who have been approved as an RI.

Clearly, the impact of not complying with the eligibility requirements can be serious and therefore all principals of audit firms should be aware of whether they are audit qualified or not.

Consideration and confirmation of eligibility

Firms are asked to reconfirm their continued eligibility as part of the firm's annual return, including confirmation that the majority of voting rights are held by those holding an 'appropriate qualification'.

Given the serious nature of a failure to comply with the Regulations, we also advise all firms to carefully consider the continued eligibility of the firm, not only during the Audit Compliance Review process, but on any change of partners and as part of ongoing succession planning.

What is the impact of a firm temporarily not complying with the requirements?

If a firm temporarily fails to meet the eligibility requirements, Audit Regulation 2.17 requires the firm to write to the Audit Registration Committee to inform them of this fact, and advise what action it intends to take. This communication should occur within 10 business days of the situation arising.

If the Committee considers that the firm is taking all necessary steps to remedy the situation, then it may grant the firm a dispensation for up to 90 days to allow audit registration to continue.

However, if the Committee considers that audit clients would be adversely affected by the situation, then it will consider the impact on the ongoing audit registration of the firm.

As a useful reference guide, Chapter 4 Schedule 1 of the Audit Regulations sets out a useful flowchart to show the relationship between holders of an appropriate qualification and Responsible Individuals.

ACCURATE COMPLETION OF THE ANNUAL RETURN

The importance of providing accurate information on the firm's annual return (FAR) cannot be underestimated.

Whilst we do appreciate that there is a certain amount of collation required to submit this return to ICAS, there are unfortunately no shortcuts to its completion.

What is the FAR used for?

The FAR is a key part of the monitoring process for audit registered firms, and is one of the tools used to determine the timing of a firm's next monitoring visit. Therefore, it is vital that the information disclosed on the FAR is accurate, and clearly any significant errors or misleading information can be viewed very seriously by the Audit Registration Committee.

The Audit Monitoring team has seen a number of errors on annual returns during recent monitoring visits, ranging from minor matters such as the type of audit programmes used, to

more serious issues relating to the omission of audit clients.

We would advise firms to carefully consider the questions being asked in the FAR, in particular in the following areas, where we can often see errors:

- Identification of any threats to independence under the Ethical Standards;
- Details relating to the firms' Audit Compliance Review, including confirmation of the process being performed, and the timing of this; and
- Confirmation of the number of audit clients, including identification of any specialist or regulated clients.

It is also important to note that the FAR is not the appropriate place to inform ICAS of changes to your firm, such as the appointment of new partners, change of address, etc. Communication of such matters should be sent directly to ICAS within 10 business days and should be directed to ereid@icas.org.uk



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ANNOUNCEMENT OF SPECIALIST AUDIT HELPSHEETS

As you may be aware, we have written a number of practice helpsheets which are available in the helpsheets section of the ICAS website and can be accessed at: icas.org.uk/regulation/news/helpsheets/ – (please note that you will need to log into your ICAS membership account to access these helpsheets).

These cover a range of areas, with some directed to all firms, and others specifically directed to firms registered to conduct audit work. There is currently a helpsheet specifically for ACPs, to assist them in establishing effective whole firm procedures and promoting quality and compliance throughout the audit function.

Helpsheets for the audit of specialist and regulated entities:

As we have mentioned in the Audit Monitoring Annual Report 2012, many of the audit files identified on monitoring visits as being of poorer quality are of a specialist or regulated nature.

As a result, we have recently issued a helpsheet on the audit of charities registered with OSCR, and will shortly be issuing helpsheets in other specialist and regulated areas.

The release of these helpsheets will be communicated through future editions of Audit News, and will cover areas such as the audit of charities registered with The Charity Commission in England and Wales; pension schemes; FSA entities; Registered Social Landlords; and Credit Unions.

REMINDER

Keeping Your Audit Firm and Files on the Right Track

As we communicated in the last edition of Audit News, we have decided to condense some of the course delivery in 2013. Whilst the content of the course will be largely unchanged, we will deliver the courses in a more succinct way, over a half day, which hopefully means less disruption to you and your client work.

We will also deliver webinars, so if you are struggling to get to any of the course locations this may be an alternative. We would, however, still encourage Audit Compliance Principals to attend in person given that it provides you with more of an opportunity to speak to the monitoring team face to face and ask any questions pertinent to your firm.

As we have previously stated, these courses are mandatory for ACPs, however to ensure mandatory attendance is not too onerous, ACPs are required to attend only once every five years. The course is still heavily discounted for those requiring mandatory attendance.

2013 courses:

There will be two onsite courses presented in 2013:

- Edinburgh, 17 April 2013; and
- Glasgow, 30 October 2013.

In addition, we will also deliver the course material as a webinar twice during the year:

- 1 May 2013; and
- 6 November 2013.

Further details, including an outline of each course and how to book, can be accessed at: icas.org.uk/Businesscourses/

