Audit News – Summer 2021

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Audit Monitoring update

2021 Audit Monitoring visits

As a result of the COVID-19 pandemic, and related restrictions, ICAS has continued to conduct monitoring activities on a remote basis. Whilst we would be keen to commence face to face visits soon, we are mindful of government guidance and will continue remote activities until further notice.

Please note that we are conscious of the difficulties that everyone is facing within the profession at the moment, however, are also required to ensure that our regulatory responsibilities are undertaken.

Mandatory audit quality course: Keeping Audit on the Right Track

This course aims to educate Audit Compliance Principals (ACPs) and Responsible Individuals (RIs) in developing a strong compliance function and preventing some of the recurring issues identified on audit monitoring visits. The COVID-19 pandemic, and related restrictions, has resulted in the planned 2021 face to face courses being cancelled. Please note that in 2020, the Committee approved the following changes to the course, and to mandatory attendance going forward:

- A video recording of the course is available on the ICAS website, which is free for members to access any time they wish and is split into seven modules which can be viewed together or individually. The course material can be accessed (by logging into icas.com) at https://www.icas.com/regulation/regulatory-monitoring/keeping-audit-on-the-right-track

  Should members prefer to attend a face-to-face course, we plan to recommence these in 2022 (subject to government guidance) with courses presented each year in Edinburgh, Glasgow, and Aberdeen. The cost of attendance will be in line with previous years, and further information will be provided in a forthcoming edition of Audit News.

- **Firms are reminded that the mandatory aspect of this course has been updated. All ACPs and RIs are now required to view all modules of the online course, or attend a face-to-face course, once every 2 years (commencing from 1 September 2020). In addition, all new RIs or newly active RIs must view all modules of the online course or attend a face-to-face course within 12 months of becoming active**.

- **The Committee considers that the availability of the course online will ensure that this mandatory aspect will be more easily adhered to, and that this will maintain the focus on audit quality**. **Going forward, firms will be required to confirm adherence to the mandatory requirements via the Firm's Annual Return.**

Emphasis of matter paragraphs – a reminder

- In the last few months, the monitoring team has raised a number of issues in relation to emphasis of matter paragraphs on audit reports.
- Issues are mainly around their use in the context of Covid-19, however, there have been more serious issues where an emphasis of matter wording has been used in place of the 'material uncertainty in relation to going concern' modification.

Following the wording of ISA (UK) 706 'Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report', where an auditor considers including an emphasis of matter paragraph in the auditor's report, this will be appropriate only when the matter is considered to be 'fundamental'.

ISA (UK) 706 itself notes that excessive use of emphasis of matter paragraphs may diminish the effectiveness of the auditor's communication about important matters so, while the pandemic and related restrictions may lead to situations where the auditor feels like a matter meets these requirements, this needs to be fully considered and justified on the file.

An important factor in determining whether the inclusion of an emphasis of matter paragraph is appropriate, can be found in the requirements section of the ISA (UK) 706 (paragraph 9) , which require the auditor to:

a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter"
b) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
c) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

There is a clear requirement to refer to where the matter being emphasised has been disclosed in the financial statements. It is not therefore the purpose of this paragraph to describe a matter in full on behalf of the directors, or to be used to provide a mechanism for the auditor to safeguard their clean audit opinion from future scrutiny.

Note that where the disclosures in the financial statements are insufficient, such that the audit report cannot refer to the matter in question, the auditor should consider the impact of this on the audit opinion.

Firms are further reminded that emphasis of matter paragraphs should not be used to draw attention to material uncertainties relating to going concern. These are now disclosed separately in the audit report, and firms are advised to ensure that their audit report templates are up to date in this regard. Reference should be in this regard to paragraphs 22 and 23 of ISA 570 (570) 'Going Concern' (Revised September 2019) that became applicable for accounting periods commencing on or after 15 December 2019. The substance of the previous ISA (2016 version) that is still applicable for accounting periods commencing before that date is the same in relation to drawing attention to material uncertainties relating to going concern. The newer ISA provides greater clarity and also highlights that:

“For entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, a statement that the auditor has nothing material to add or draw attention to in respect of the directors' identification in the financial statements of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.”

Some ISAs (UK) contain specific requirements for the auditor to include emphasis of matter paragraphs in the auditor’s report in certain circumstances. These circumstances include:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.
- When facts become known to the auditor after the date of the auditor’s report and the auditor provides a new or amended auditor’s report (i.e., subsequent events).

Other examples of circumstances where the auditor may consider it necessary to include an emphasis of matter paragraph include:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor’s report.
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position.

An update on UK audit reform

The Department for Business, Energy and Industrial Strategy (BEIS) has launched its consultation - **Restoring trust in audit and corporate governance** - to reform the UK’s audit, corporate reporting and corporate governance system.

The proposals respond to recommendations made by 3 independent reviews commissioned by the government in 2018:

- Sir John Kingman’s Independent review of the Financial Reporting Council
- The Competition and Market Authority’s statutory audit market study
- Sir Donald Brydon’s independent review of the quality and effectiveness of audit

The objectives of these reforms are to:

- restore public trust in the way that the UK’s largest companies are run and scrutinised
- ensure that the UK’s most significant corporate entities are governed responsibly
- empower investors, creditors, workers, and other stakeholders by giving them access to reliable and meaningful information on a company’s performance
- keep the UK’s legal frameworks for major businesses at the forefront of international best practice.

The proposals include the establishment of a new statutory regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the Financial Reporting Council (FRC).

FRC response and Strategy for 2021/22

The FRC has now published its **Strategy for 2021/22.** The FRC's plan takes into account the Government's stated intentions for the statutory objectives and governance of ARGA and its proposals to fund the new regulator through a statutory levy. It also takes further steps towards the growth that will be required to deliver new or enhanced regulatory activities.

As part of the process, and reflecting feedback to the consultation, FRC will develop for publication a three year forward plan and further measures to report the progress and impact of its strategy

The FRC has also published a new report on its ***approach to audit supervision***, which sets out what firms can expect from the FRC, with a focus on audit quality and firm resilience.

Related articles by ICAS
ICAS has published a series of articles exploring the proposals:

- The first article focuses on the key proposals that relate specifically to audit and related regulatory matters.
- The second article focuses on the key proposals that relate specifically to companies.
- A third article highlights BEIS proposals in relation to resilience statements.
- A fourth article provides an analysis on BEIS proposals in relation to internal controls.

IAASB to consider ISA for Less Complex Entities (LCE)

The International Auditing and Assurance Standards Board (IAASB) will be considering whether to issue an exposure draft of a proposed standalone ISA for use in the audits of less complex entities at its meeting in June. This is intended to be a self-contained standard, aimed at those entities whose operations are not complex e.g. many SMEs.

ICAS welcomes this development and envisages that the proposed standard would be of benefit to those who audit such entities. The proposed standard has been developed based on the concepts in the International Standards on Auditing (ISAs) but designed to reflect the nature and circumstances of an audit of an LCE and result in a high-quality audit. Further information will be provided in future issues of Audit News.

Audit firm queries around the revised ISA (UK) 700 and reporting on 'irregularities'

- The revised version of ISA (UK) 700 'Forming an Opinion and Reporting on Financial Statements' is effective for periods commencing on or after 15 December 2019 (early adoption is permitted).
- The revised ISA (UK) 700 introduces a new requirement for the auditor's report to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

Section 29-1 of revised ISA (UK) 700 states that "The auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud". We have had a number of recent queries as to what this means, and how the auditor should approach the wording of this section of the audit report as the ISA requires matters to be communicated clearly and concisely, without the use of boiler plate text.

Note that “irregularity” is not defined in the Audit Regulations but is deemed to correspond to the definition in ISA (UK) 250 of non-compliance: “Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations.”

While the FRC has suggested some wording in the ISA and up to date illustrative audit report examples (see FRC bulletin March 2020) they also state that the auditor must consider how this wording is tailored to each entity’s individual circumstances. It goes without saying that any standard wording offered by a firm’s accounts preparation software will not be sufficient.

Constructing and tailoring the narrative

The key steps in constructing and tailoring the narrative around the auditors work in this area, are:

1) Documenting and explaining how the auditor identifies the risk of misstatement in respect of irregularities; and
2) Documenting key risk areas and the audit procedures performed over these areas.

While the auditor may also find it useful to reiterate their objectives and responsibilities relating to fraud, together with reemphasising the responsibilities of management under the legislation, the areas noted above, if documented and tailored properly, will form the bulk of the narrative.

When considering how the auditor identifies and assesses risks of material misstatement, remember that the auditor should already under the requirements of the ISAs perform a number of risk assessment procedures focussed on the detection of irregularities. These include, but are not limited to:

- Obtaining an understanding of the nature of the client and the industry in which it operates, including the applicable legal and regulatory framework it operates in and how it complies with these laws and regulations.
- Inquiring with management and those charged with governance about compliance with laws and regulations, including controls put in place by management to mitigate risk and any actual, suspected or alleged issues.
- Inquiring with management and those charged with governance about their identification of fraud and other irregularities, including the extent of controls put in place by management to mitigate risk, and any actual, suspected or alleged instances.
- Consideration and documentation of how fraud might occur including an assessment of where the financial statements might be susceptible to fraud.

Accordingly, you may wish to include a summary of these procedures, plus any other risk assessment procedures performed in relation to the detection of irregularities, including fraud.

When going on to document key audit procedures performed, remember that irregularities that result from fraud will be inherently more difficult to detect than irregularities that result from error, therefore the narrative here is likely to focus on those areas where the auditor is able to provide the most comprehensive explanation. This may include, but is not limited to:

- Where the auditor has identified legislation of particular relevance to the entity, including procedures the auditor designed and performed to obtain sufficient appropriate audit evidence regarding compliance with that legislation.
- Consideration of the risk of fraud in relation to management override of controls which, under ISA (UK) 240, is a significant risk and cannot be rebutted.
- Where the audit team has identified particular areas of the financial statements susceptible to misstatement as part of their risk assessment process, including fraud discussions.
- Group situations, in particular where the group auditor must consider the work of a component auditor.

These points will also be key in tailoring the narrative. While some examples are provided below, please note these that are for illustrative purposes only. More detailed consideration will have to be given in certain circumstances (e.g. where a specific fraud has been identified, or where the assessed risk of misstatement over a transaction or balance due to fraud or other irregularity is not assessed as low):

Laws and regulations Consider and document which laws and regulations the auditor identified as being of significance in the context of the entity (i.e. have a direct or indirect impact on the financial statements) AND Disclose the audit procedures designed to respond to the risks of non-compliance.	<u>*Examples:*</u> Laws and regulations which are considered to have a direct impact on the financial statements (e.g. IFRS, FRS 102, Companies Act, charity legislation, tax legislation, etc.) Related audit procedures may include, but are not limited to, review of financial statement disclosures, review of correspondence with tax authorities and advice from tax professionals. Laws and regulations which are considered to have an indirect impact on the financial statements (e.g. health & safety, environmental legislation, GDPR, employment law, anti-money laundering legislation, etc.) Related audit procedures may include, but are not limited to, review of minutes of meetings, consideration of internal procedures and controls, review of correspondence with regulators, review of reports from internal or external compliance functions, review of legal invoices.
Fraud risk Consider and disclose which areas the auditor has identified as being most susceptible to material misstatement due to fraud. AND Disclose the audit procedures designed to respond to these risks (including management override of controls and other fraud risks).	<u>*Examples:*</u> As management override of controls is a significant risk in all audits this will be included. Related audit procedures may include, but are not limited to, review of manual journals, review of management estimates and judgements for evidence of bias, review for undisclosed related party transactions, review for large and unusual items. As noted above, there may be specific risks which arise on specific clients. A common consideration will be whether the significant risk of fraud around revenue recognition can be rebutted. If not, this will have to be considered. Related audit procedures may include, but are not limited to, tests of controls in relation to specific assertions, detailed substantive

	testing in relation to specific assertions, tests of cut-off, other work performed to conclude that revenue is recognised in line with the accounting policy. This disclosure may be more detailed where recognition is not straightforward e.g. long term contracts.
Group considerations Consider and disclose relevant considerations on group audits, including how the auditor has addressed these matters at both group and component levels.	_Examples:_ This should include the extent of communication with component auditors and how any instances of non-compliance have been addressed as part of the group audit approach. Note that in a group audit report, the narrative should refer to the group (*group / group level / group engagement team etc*) and not the parent as a single entity. You may wish to consider whether existing component auditor questionnaires capture these areas sufficiently to conclude at a group level, or whether these should be updated.

While suitable tailoring of the report is a must, you should also ensure that the work performed on the audit file accurately supports these disclosures. For example, it is not uncommon on audit monitoring visits for the monitoring team to raise issues around:

- Management override – including where the risk has been rebutted inappropriately then not tested, or where no journals testing has been conducted as required by ISA (UK) 240.
- Fraud discussions with management – including where these are not documented or not documented in sufficient detail to inform the audit process.
- Laws and regulations – including a lack of or insufficient consideration at planning, or inadequate audit procedures at fieldwork.

As part of our monitoring visits, in addition to reviewing the wording of the audit report, we will check that the appropriate work has been performed. Given that this impacts the audit report, it is important that the requirements of the standards are met, and you are advised to ensure that audit working papers include the key audit procedures as disclosed in the report.

A copy of the revised standard can be downloaded from the FRC website at https://www.frc.org.uk/auditors/audit-assurance/standards-and-guidance The FRC's Bulletin - Illustrative Auditor's Reports on United Kingdom Private Sector Financial Statements, can be found at https://www.frc.org.uk/auditors/audit-assurance/standards-and-guidance/bulletins There are conforming amendments to other ISAs including ISAs (UK) 240, 250A, and 600.

The audit of pension schemes – common issues from audit monitoring visits

- Over the last 12 months, the ICAS audit monitoring team have raised a number of common issues on the audit files of pension schemes.
- A number of issues have been raised in relation to communication during the audit process, and consideration of service organisations and management experts.
- There are a number of further specific considerations arising out of the ongoing COVID-19 pandemic.

Communication with management and those charged with governance

Firms are reminded that, under The Pensions Act 1995 (PA 1995), the scheme auditor does not have a right of access to information held by third parties. Consequently, it is necessary for the scheme auditor to formally request such information through the trustees when necessary, for the external audit. As the auditor may require information from the administrator; actuary; investment manager(s); custodian(s); sponsoring employer – or employers where there is a multi-employer scheme – and potentially the sponsoring employer's auditor, ensuring that up-to-date authorities to disclose are in place and timely communication between all relevant parties is maintained is essential.

ISA (UK) 260 stresses that communication should be active, two-way communication between the auditor and those charged with governance. This is unlikely to be achieved if communication is only by way of intermediaries and by issue of written reports, and we raise a common issue where communication by the auditor has been solely with the pension scheme administrator.

Provision of non-audit services and adopting the FRC Ethical Standard's Provisions Available for Audits of Small Entities (PAASE)

While scheme administrators or another third party may often prepare scheme financial statements for audit it is not uncommon for smaller schemes to request assistance from the auditor in meeting their statutory reporting requirements.

The monitoring team continue to raise issues where safeguards under the Ethical Standard PAASE have been incorrectly applied and appropriate alternative safeguards therefore not implemented by the firm.

You are reminded that adoption of the PAASE is permissible for the audit of small pension schemes (defined as fewer than 100 members (including active, deferred and pensioner)). For pension schemes that do not satisfy these criteria, the auditor must apply alternative procedures under the standard to safeguard inherent self-review and management threats.

A separate materiality level for contributions

Where the auditor is also required to provide a statement about contributions this may require separate consideration around (a lower) materiality level for contributions. Often this is overlooked on audit files.

Use of service organisations (ISA (UK) 402)

The auditor of a pension scheme must consider the nature and extent of activity undertaken by service organisations to determine whether those activities are relevant to the audit, and what their effect is on audit risk. These considerations, however, are often omitted from pension scheme audit files.

Third party organisations undertake a wide range of activities within the pensions sector. Many of these involve financial transactions and balances and are therefore relevant to the financial statements so may fall for consideration under ISA (UK) 402 as ''service organisations''. Examples of activities that may be undertaken by service organisations include:

- maintenance of the scheme's accounting and/or membership records
- collection and investment of contributions paid over by the employer
- custody and management of the scheme's investment assets
- calculation and payment of benefits

Under ISA (UK) 402, the auditor is required to document a consideration of the activities of the service organisation, and whether further audit procedures are required. Considerations that apply to and should be documented for all service organisations used by pension scheme trustees include:

- The trustees' own procedures for appointment and ongoing monitoring of a third-party service organisation;
- The level of supervision that the trustees exercise over any third parties and their activities; and
- The availability of internal control reports produced under ICAEW Technical Release 01/20 AAF Assurance reports on internal controls of service organisations made available to third parties or other equivalent guidance.

<u>Controls reports – a reminder</u>
Where a report provided on internal control covers a period which is not coterminous with the scheme reporting period, the scheme auditor is required to consider alternative procedures to cover the 'gap-period' between the date of the report and the year end. Such procedures can include, but are not limited to, requesting a bridging letter from the service organisation, discussions with trustees and management on the quality of the services received from the service organisation and/or review of performance reports and other information received from the service organisation.

In the case of the audit of investments for example, separate communication may be required with both the investment manager and the custodian(s) of scheme assets in respect of these two distinct functions.

Finally, auditors should remember that even where a degree of reliance is able to be placed on a third-party assurance report it is unlikely that sufficient appropriate audit evidence can be obtained in respect of all the financial statement assertions, for example in relation to the operation of pensioner payroll, without conducting some detailed substantive audit testing.

Use of a management's expert

In preparing the financial statements, the trustees may use estimates which have been provided by experts (e.g. actuaries, investment property valuers). Where the auditor uses information provided by these experts as audit evidence the reliability of such information must be assessed with reference to the competence, capabilities and objectivity of the expert.

This is an area which is often not well documented on audit files, which often focus on the competence of the expert and not the reliability of the information and whether the scope of the work performed is suitable as evidence (e.g. is it at the correct date? Are assumptions used consistent with market information? etc). You should also consider how information is supplied to the expert by the client or sponsoring employer including any risk arising in relation to the completeness and accuracy of this information.

Audit of Investments – Fair Value Hierarchy

The auditor is required to consider the summarised fair value hierarchy together with the detailed reporting of each investment by pricing category or level which supports the summarised information. The audit file should document the auditor's understanding of how the information was sourced, reviewed and the basis for assigning investments – often this is an area which has not been considered or is not documented fully on the file. We have also reviewed audits where the information on the audit file contradicts the disclosures in the financial statements.

Note that, in relation to investment risk disclosures, the auditor should obtain supporting information in relation to the disclosures in the accounts and which is likely to include:

- A copy of any Statement of Investment Principles (SIP) and Investment Policy Documentation in place during the reporting period;
- A copy of any investment manager agreements where additional constraints above and beyond any referred to in the above documentation are in place; and
- In the case of Pooled Investment Vehicles (PIV), fund factsheets at the reporting date.

The Pensions Research Accountants Group (PRAG) has published an addendum to the Pensions SORP on revised investment disclosure requirements in pension scheme annual reports. A recent article discussing the addendum can be found on icas.com at https://www.icas.com/professional-resources/pensions/prag-publishes-addendum-to-the-pensions-sorp-on-investment-disclosures

The impact of COVID-19

As highlighted in the Summer 2020 edition of Audit News, ICAS, ICAEW and PRAG published new joint guidance on pension scheme reports and financial statements and related matters in the context of the COVID-19 pandemic. The Guide, which is available at https://www.icas.com/news/covid-19-pensions-guidance-released, should be read in conjunction with the most up-to-date guidance from TPR, the FRC and others relevant to the preparation of scheme annual reports and financial statements and audit.

From an accounting perspective, key areas which were covered by the guidance included:

- Fair Value of Investments
- Fair Value Hierarchy – Classification of Investments
- Nature and Extent of Risks arising from Financial Instruments
- Events after the End of the Reporting Period.

Auditors are reminded that they should be considering the impact of the COVID-19 pandemic on all aspects of the audit and communicating with pension scheme trustees about these as appropriate. Audit evidence, and the documentation of that evidence, is therefore a key theme throughout the 'guide.

Some of the key issues scheme auditors are likely to need to address include:

- Strategies and plans
- Materiality in planning and performing the audit
- Internal controls, assessing risks of material misstatement and accounting estimates
- Written representations
- Going concern, including the application of the September 2019 revision of ISA 570 (UK)
- Using the work of an auditor's expert
- Subsequent events
- The auditor's report, including the auditor's opinion
- Audit firms' own risk management arrangements over signing auditor's reports
- The auditor's statement about contributions.

In addition to applying the ISAs (UK), pension scheme auditors should continue to refer to Practice Note 15 (revised): The Audit of Occupational Pension Schemes in the UK (November 2017) (PN15) as authoritative guidance.

In respect of the separate auditor's statement about contributions, the auditor will need to know whether contributions to the scheme have been impacted by:

- The reduction or suspension of deficit recovery contributions or future contributions (DB schemes only)
- Changes in pensionable earnings
- The furloughing of employees under the UK government's Coronavirus Job Retention Scheme.

Where contributions have not been paid in accordance with any schedule of contributions or payment schedule in force during the reporting period, then the auditor will need to consider the implications for their statement and whether in the course of their work they have identified any matters of material significance to report to TPR.

Following the revision of International Standard on Auditing (ISA) (UK) 570 on going concern and the possible implications of the COVID-19 pandemic on the financial health of pension schemes, PRAG decided to update its guidance on pension scheme financial statements and going concern (December 2020). An article and a link to the guidance can be found on icas.com at https://www.icas.com/professional-resources/pensions/pensions-research-accountants-group-publishes-revised-guidance-on-pension-scheme-financial-statements-and-going-concern

FRC issues revised auditing standard for the auditor's responsibilities relating to fraud

The Financial Reporting Council (FRC) has issued a revision of its UK auditing standard on the responsibilities of auditors relating to fraud - ISA (UK) 240 (Revised May 2021) - The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements.

The revisions to the standard are designed to provide increased clarity as to the auditor's obligations, addressing the concern raised by Sir Donald Brydon in his review of the quality and effectiveness of audit. The revisions include enhancements to the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.

The revised UK standard is effective for audits of periods **beginning on or after 15 December 2021** with early adoption permitted.

Revised practice note for the audit of housing associations in the United Kingdom

The Financial Reporting Council (FRC) has launched a revised Practice Note 14 (PN 14) (Revised March 2021) The Audit of Housing Associations in the United Kingdom. The revised practice note provides sector specific guidance on applying the FRC's auditing standards to audits of Housing Associations.

Key revisions include:

- Updating materials relating to devolved regulatory regimes and the inclusion of links to key locations on regulator's websites where auditors can seek additional guidance.
- Updating key business risks affecting housing associations, including the inclusion of new risks and the re-ordering of existing risks.
- Updating ISA (UK) specific guidance to ensure it remains fit for purpose and provides helpful guidance to auditors of housing associations. Specific new guidance has been provided in relation to requirements found in ISA (UK) 570 and ISA (UK) 720.

A copy of the revised PN 14 can be found on the FRC website at https://www.frc.org.uk/auditors/audit-assurance/standards-and-guidance/practice-notes

FRC extends application period for accounting requirements covering COVID-19-related rent

The FRC has issued Amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions beyond 30 June 2021. These amendments extend the application of requirements that cover the accounting treatment of temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic by one year.

The requirements, originally introduced into FRS 102 and FRS 105 in October 2020, apply to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the requirements are met.

As pandemic restrictions continue, extending the existing time condition is considered necessary to ensure these concessions are accounted for consistently.

A copy of the amendment can be found here.