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UK GOVERNMENT'S RESPONSE TO AUDIT REFORM

On 31st May, the UK Government published its plans to revamp the UK's corporate reporting and audit regime through a new regulator, greater accountability for big business and by addressing the high level of concentration in the public interest entity audit market.

Firstly, the reforms are focused on public interest entities (PIEs) with a number of the proposals restricted to larger PIEs. Some of the key points are set out below.

ARGA – New Regulatory Body.

The Financial Reporting Council (FRC) will be replaced by a new, stronger regulator – the Audit, Reporting and Governance Authority (ARGA) – with tougher enforcement powers and funded by a levy on industry. Work on this has already begun, with the Business Secretary already acting to enable the regulator to ban failing auditors from reviewing large companies' accounts.

Widening of PIE definition

For the first time, the largest private companies, those with over 750 employees and with over £750m annual turnover, will come under the scope of the regulator, reflecting the impact they have on the wider economy. The Government therefore intends to include only third sector entities that meet the new 750:750 size threshold.

Breach of directors' duties

Directors at the biggest companies who breach their legal duties to be open with auditors, or lie about the state of their firm's finances, will face sanctions such as fines, and the Government will act to address 'rewards for failure'.

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Internal controls

The Government will invite the FRC to consult on strengthening the internal control provisions in the UK Corporate Governance Code to provide for an explicit statement from the board about their view of the effectiveness of the internal control systems (financial, operational and compliance systems) and the basis for that assessment. The Government expects that this would be underpinned with guidance on how boards should approach the preparation of the statement, which would be developed following a

review of the FRC's existing Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. This guidance would cover the identification of acceptable standards, benchmarks or principles and address definitional issues and the circumstances in which external assurance might be considered appropriate. Additionally, as part of the proposed "minimum content" for the new Audit and Assurance Policy, companies will be required to report whether or not they plan to seek external assurance of the company's reporting on internal controls.

Distributable profits

The Government intends to require qualifying companies or, in the case of a UK group, the parent company only, to disclose their distributable reserves, or a "not less than" figure if determining an exact figure would be impracticable or involve disproportionate effort.

ARGA will issue guidance on what should be treated as 'realised' profits and losses. The Government is not legislating to require parent companies to provide an estimate of the dividend-paying capacity of the group as a whole. Such disclosures are to be encouraged rather than be a required element of reporting.

Managed Shared Audit

To reduce the level of concentration in the FTSE 350 audit market, FTSE 350 companies will be required to have a 'meaningful proportion' of their audit conducted by a challenger firm. The Government plans to legislate to give ARGA the power to set this percentage.

Operational Separation

The new regulator, ARGA, will also be given the power to make big audit firms keep their audit and non-audit functions operationally separate and to enforce a market cap if the state of the market doesn't improve. The FRC is already taking this forward with the firms on a voluntary basis.

Code of Ethics

The Government recognises the concerns raised regarding its proposal for ARGA to set and enforce a code of ethics. Accordingly, the Government intends that ARGA will instead use the IESBA International Code of Ethics for Professional Accountants as the basis for enforcement action. The Government believes that this will allow the professional bodies to retain autonomy to set their own ethical standards while ensuring that there is a single set of standards, consistent with those of the professional bodies, as the basis for enforcement action by ARGA. The same code could also be applied to non-member accountants, should the scope of the regime need to be expanded in the future.

Next Steps

The Government has previously confirmed its commitment to publish a draft Bill to revamp the UK's audit and corporate reporting regime this parliamentary session.

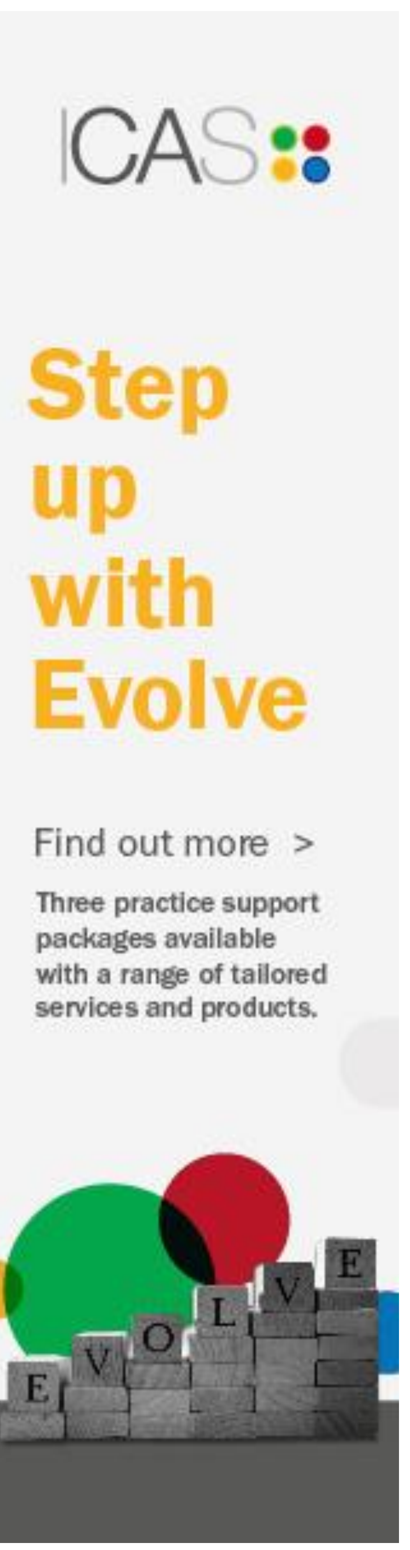

Table of key reforms proposed

	Current regime	Planned reform
Public Interest Entities (PIEs)	The UK definition of PIEs is inherited from the EU: companies listed on the stock exchange, banks & building societies, and insurance firms.	Very large unlisted companies (>750 employees and >£750m annual turnover) will also become PIEs, so the new regulator will scrutinise their reporting and audit and they will need to meet new transparency requirements.
The regulator	The Financial Reporting Council (FRC) has a complicated mixture of statutory, voluntary, and contractual functions, funded by levies that are partly voluntary.	A new statutory regulator – the Audit, Reporting and Governance Authority (ARGA) – will replace the FRC, funded by a mandatory levy on industry. It will have new powers, including to direct companies to restate their accounts without going to court.
Director accountability	The FRC has no power to take action against company directors (unless they are accountants).	The regulator will be able to investigate and sanction directors of large companies for breaches of duties around corporate reporting and audit.
	It is often unclear under what circumstances an executive director's bonus would be withheld or clawed back.	The FRC will consult on amending the Corporate Governance Code to increase transparency around bonus clawbacks.
Accountants & the accountancy profession	The FRC has powers to investigate and sanction auditors, but in the case of other accountants it relies on voluntary arrangements with the chartered professional accountancy bodies.	The regulator will have statutory powers to oversee the professional bodies' regulation of the accountancy profession and to investigate and sanction accountants in public interest cases relating to corporate reporting.
Transparency	Companies are not doing enough to demonstrate how they are identifying and addressing future risks.	Large PIEs will have to explain how they are identifying and addressing risks, and to set out the steps taken to prevent and detect fraud. Directors of Premium listed companies will also be expected to state whether their internal controls are effective, under the Corporate Governance Code.
	Companies don't have to disclose their distributable reserves and accountancy bodies provide guidance as to what counts as 'realised' profits and losses (which is the legal basis for issuing dividends).	Large PIEs will have to publish their distributable reserves and confirm the legality of dividend payments. ARGA will issue guidance on what should be treated as 'realised' profits and losses.
The audit market	The FTSE350 audit market is heavily dominated by four large audit firms.	FTSE350 companies will be required either to appoint an auditor outside the Big Four or to allocate a certain portion of their audit to a smaller firm, bolstering the competition while avoiding replication of efforts. If necessary, the Business Secretary will be able to introduce a market share cap.
Audit scope	Companies do not have to state how they assure non-financial information in their annual reports (such information lies largely outside the statutory audit).	Large PIEs will have to set out how they assure the quality and reliability of information in their annual reports outside the financial statements, including on climate, risk, and internal control.

FRC ISSUES UPDATED INTERNATIONAL STANDARDS ON AUDITING (UK)

The Financial Reporting Council (FRC) has issued 29 updated International Standards on Auditing (ISAs) (UK), amended to include conforming amendments arising from the revision of ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement.'

These changes do not involve substantive revisions to the standards but are restricted to conforming amendments, including updating references to applicable standards within each of the respective ISAs listed below. The nature of the amendments is reflected in the titles of the standards which retain the date of their last revision, but the wording (Updated May 2022) has been added. These changes have no impact on the effective date of the standards in question.

The amended ISAs (UK) are all available from the current auditing standards page of the FRC website.

The ISAs (UK) which have been amended are as follows:

- 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)
- 210, Agreeing the Terms of Audit Engagements
- 220, Quality Control for an Audit of Financial Statements
- 230, Audit Documentation
- 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- 250A, Section A – Consideration of Laws and Regulations in an Audit of Financial Statements
- 260, Communication With Those Charged With Governance
- 265, Communicating Deficiencies in Internal Control to Those Charged With Governance and Management
- 300, Planning an Audit of Financial Statements
- 320, Materiality in Planning and Performing an Audit
- 330, The Auditor's Responses to Assessed Risks
- 402, Audit Considerations Relating to an Entity Using a Service Organization
- 450, Evaluation of Misstatements Identified During the Audit
- 500, Audit Evidence
- 501, Audit Evidence – Specific Considerations for Selected Items
- 505, External Confirmations
- 520, Analytical Procedures
- 530, Audit Sampling
- 540, Auditing Accounting Estimates and Related Disclosures
- 550, Related Parties
- 570, Going Concern
- 580, Written Representations
- 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)
- 610, Using the Work of Internal Auditors
- 620, Using the Work of an Auditor's Expert
- 700, Forming an Opinion and Reporting on Financial Statements
- 701, Communicating Key Audit Matters in the Independent Auditor's Report
- 710, Comparative Information – Corresponding Figures and Comparative Financial Statements
- 720, The Auditor's Responsibilities Relating to Other Information

International Standard on Quality Control (UK) 1 has also been updated.

To illustrate the nature of the amendments that have been made, some of those featured in ISA 200 are set out below. This exercise has not been repeated for the other ISAs but is merely included for illustration.

Illustration of some of the changes to ISA 200

1. Paragraph 7, the first bullet point now also refers to "the applicable financial reporting framework".
2. Paragraph 13(n) There is a slight change in the wording of Control Risk

2022 version - Control risk reads "The risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's controls."

This was previously "The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when

aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control."

3. New application material has been included at paragraph A15a in relation to *Risk of material misstatement* paragraph 13(n).

"For the purposes of the ISAs (UK), a risk of material misstatement exists when there is a reasonable possibility of:

(a) A misstatement occurring (i.e., its likelihood); and

(b) Being material if it were to occur (i.e., its magnitude)."

4. New application material has been included at paragraph A40a and paragraph A40 has been amended.

2022 version

A40 "Inherent risk is influenced by inherent risk factors. Depending on the degree to which the inherent risk factors affect the susceptibility to misstatement of an assertion, the level of inherent risk varies on a scale that is referred to as the spectrum of inherent risk. The auditor determines significant classes of transactions, account balances and disclosures, and their relevant assertions, as part of the process of identifying and assessing the risks of material misstatement. For example, account balances consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty may be identified as significant account balances, and the auditor's assessment of inherent risk for the related risks at the assertion level may be higher because of the high estimation uncertainty.

A40a. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterized by a large number of business failures."

Previously, there was just paragraph A40 with the wording as follows: "A40. Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex calculations or for accounts consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterized by a large number of business failures."

5. The wording of paragraph A42 has been amended.

2022 version states "The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The ISAs (UK) typically refer to the "risks of material misstatement" rather than to inherent risk and control risk separately. However, ISA (UK) 315 (Revised July 2020)19 requires inherent risk to be assessed separately from control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement at the assertion level in accordance with ISA (UK) 330 (revised July 2017)."

The previous wording of paragraph A42 was as follows: "The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The ISAs (UK) do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement." However, ISA (UK) 540 (Revised December 2018)19 requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, for accounting estimates at the assertion level in accordance with ISA (UK) 330 (revised July 2017)20. In identifying and assessing risks of material misstatement for significant classes of transactions, account balances or disclosures other than accounting estimates the auditor may make

separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations."

6. New application material has been added at paragraph A43a. "Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence."
7. Paragraph A61 has been slightly reworded:

2022 version reads "Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA (UK) and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover, including in some ISAs (UK) such as ISA (UK) 315 (Revised July 2020), why a procedure is required.
- Include examples of procedures that may be appropriate in the circumstances.

In some ISAs (UK), such as ISA (UK) 315 (Revised July 2020), examples are presented in boxes.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA (UK). The application and other explanatory material may also provide background information on matters addressed in an ISA (UK)."

This was previously worded as follows: "Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA (UK) and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover Include examples of procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA (UK). The application and other explanatory material may also provide background information on matters addressed in an ISA (UK)."

8. New application material paragraphs have been included at A65a and A65b

"Scalability Considerations

A65a. Scalability considerations have been included in some ISAs (UK) (e.g., ISA (UK) 315 (Revised July 2020)), illustrating the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. Less complex entities are entities for which the characteristics in paragraph A66 may apply.

A65b. The "considerations specific to smaller entities" included in some ISAs (UK) have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities."

9. Paragraph A66 has been slightly reworded:

2022 version - A66. "For purposes of specifying additional considerations to audits of smaller entities, a "smaller entity" refers to an entity which typically possesses qualitative characteristics such as:

(a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

(b) One or more of the following:

(i) Straightforward or uncomplicated transactions;

(ii) Simple record-keeping;

(iii) Few lines of business and few products within business lines;

(iv) Simpler systems of internal control;

(v) Few levels of management with responsibility for a broad range of controls; or

(vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

The previous wording was as follows: A66. "For purposes of specifying additional considerations to audits of smaller entities, a "smaller entity" refers to an entity which typically possesses qualitative characteristics such as:

(a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

(b) One or more of the following:

(i) Straightforward or uncomplicated transactions;

(ii) Simple record-keeping;

(iii) Few lines of business and few products within business lines;

(iv) Few internal controls;

(v) Few levels of management with responsibility for a broad range of controls; or

(vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

10. Paragraph A67a replaces paragraph A67 the wording of both these is included below.

2022 version - A67a. "The considerations specific to "automated tools and techniques" included in some ISAs (UK) (for example, ISA (UK) 315 (Revised July 2020)) have been developed to explain how the auditor may apply certain requirements when using automated tools and techniques in performing audit procedures.

The previous wording was as follows: "The considerations specific to smaller entities included in the ISAs (UK) have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities."

FRS 102 – THE WAY AHEAD

The Financial Reporting Council (FRC) intends to issue a consultation on proposed revisions to Financial Reporting Standard (FRS) 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' towards the end of this year or possibly early in 2023.

The main matters being considered by the FRC are whether to bring in the approaches that have been adopted by the International Accounting Standards Board (IASB) in the following International Financial Reporting Standards (IFRS):

- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases
- IFRS 9 'Financial Instruments'.

ICAS View

In response to the FRC's periodic review of FRS 102 consultation in 2021, ICAS commented as follows on the possibility of adopting the approaches set out in these standards in FRS 102:

IFRS 15

"IFRS 15, if simplified, was perceived as a valuable addition to FRS 102 as the five-step model would introduce a more structured and consistent methodology for revenue recognition.

Nonetheless, it was highlighted that, while IFRS 15 applies to revenue from contracts with customers, the definition of 'contract' can sometimes be a grey area. Anecdotally, many owner-managed businesses do apply the principles of IFRS 15 when accounting for revenue from contracts so alignment of the two reporting frameworks would have the benefit of regularising what is already happening. However, it is noted that the information required to allow for proper interpretation of the standard may not exist in some smaller entities and, whilst it would be beneficial for these entities to react by enhancing/formalising their internal systems, it may result in the standard being inappropriately applied. Therefore, some accompanying guidance may be required."

IFRS 16

"The introduction of elements of IFRS 16 was perceived as a potential valuable addition to FRS 102 to reduce elements of quasi "off balance sheet" disclosures bringing right of use assets onto the balance sheet.

We also suggest the FRC considers an exemption from IFRS 16 for intra-group leases, e.g. of property between a parent and subsidiary, in much the same way as such leased assets have an exemption from the definition of investment properties in the lessor's accounts. Without such an exemption, those wishing to avoid accounting for such leases will simply redraft leases or let them lapse."

IFRS 9

"Although our outreach highlighted that greater harmonisation with IFRS standards would enable greater comparability and consistency, there were specific concerns raised about greater harmonisation with IFRS 9.

Based on its complexity and extent of reporting, IFRS 9 would have the most significant impact on FRS 102 reporters and assurance providers as almost all balance sheet asset classes would require assessment under the standard. Preparers would be required to prepare assessments to either estimate lifetime losses on assets (where relevant) or defend attestations that the impact of adoption is not material. For private entities, the main challenges would be:

- Where receivables are held with 3rd parties, assessing counterparty credit risk over the lifetime of the instrument and determining an estimate of loss given default, even if the outcome is immaterial. Assessment and challenge by audit teams would be required where applicable.
- A simplified approach can be taken for trade, contract and lease receivables; however, this would likely require upskilling within finance functions reporting under UK GAAP.
- While practical expedients are available (i.e. low credit risk), an assessment would still be required to substantiate this.”

What happens next?

The feedback from the FRC’s 2021 consultation would suggest that revisions will be taken forward with respect to incorporating the IFRS 15 and IFRS 16 approaches in a simplified manner in FRS 102 but that consideration of whether to incorporate the IFRS 9 approach, including the expected credit loss (ECL) model, may be deferred to a separate later consultation. The approach to be adopted by the IASB may also have an impact. At present the IASB is debating requiring the ECL model but exempting trade receivables and contract assets from its application.

The IASB is due to publish an exposure draft in the third quarter of its proposed revisions to the IFRS for Small and Medium Sized Entities (IFRS for SMEs) on which FRS 102 is substantively based. The plan is for the FRC to wait until that has been issued before finalising and issuing its own consultation, hence why the FRC’s exposure draft may not be issued until early 2023, if the IASB consultation is delayed.

The finalised changes to FRS 102 will not become applicable before accounting periods commencing on or after 1 January 2025.

GUIDANCE ON PENSION SCHEME TCFD GOVERNANCE AND REPORTING REQUIREMENTS

New Pensions Research Accountants Group (PRAG) guidance has been issued to assist preparers of pension scheme annual reports to understand Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements.

The guidance provides pension scheme annual-report preparers and pension trustees with an overview of the requirements for pension schemes to implement climate-change governance arrangements and to prepare an adapted TCFD report.

Four key elements

There are four key elements to climate-change governance and reporting by pension schemes:

- Governance. Trustees must establish and maintain oversight of the climate-related risks and opportunities which are relevant to their scheme.
- Strategy. Trustees must, on an ongoing basis, identify and assess climate-related risks and opportunities which they consider will have an effect over the short term, medium term and long term on the scheme’s investment strategy and, for Defined Benefit (DB) schemes, the scheme’s funding strategy.
- Risk management. Trustees must establish and maintain processes for the purpose of enabling them to identify, assess and manage climate-related risks which are relevant to their scheme. The trustees’ management of climate-related risks must be integrated into their overall risk-management of the scheme.
- Metric and targets. Trustees must select, as a minimum, one metric which gives the total greenhouse-gas emissions of the scheme’s assets; one metric which gives the total carbon-dioxide emissions per unit of currency invested by the scheme and one further climate change metric. Trustees must set a target for their scheme in relation to at least one of the metrics which they have selected to calculate.

As part of their strategy, trustees must, as far as they are able, undertake scenario analysis in at least two

scenarios where there is an increase in the global average temperature. In one of those scenarios, the global average temperature increase selected by the trustees must be within the range of 1.5 and 2 degrees Celsius above pre-industrial levels.

Climate-change scenarios can help trustees and the sponsoring employer determine how exposed the pension scheme may be to climate change. The trustees and the employer can then use the results of the analysis to identify steps to mitigate the risks.

Schemes in scope

DB and Defined Contribution (DC) private sector schemes, which have relevant assets of £5bn or more on the first scheme year-end date to fall on or after 1 March 2020, must meet the climate-change governance requirements for the current scheme year from 1 October 2021 to the end of that scheme year (unless audited accounts have not been obtained for that scheme year, in which case from the date they are obtained).

Trustees must also publish a TCFD report within seven months of the end of the scheme year which is underway on 1 October 2021 (unless scheme-relevant assets are zero on the scheme year-end date).

Relevant assets (except in the case of earmarked schemes) are the net assets of the scheme, excluding bulk and individual annuity policies.

For schemes which are authorised master trusts on or after 1 October 2021, trustees must meet the climate-change governance requirements for the scheme year which is underway to the end of that scheme year and produce a TCFD report within seven months of the end of that scheme year.

These requirements will apply to authorised Collective Defined Contribution (CDC) schemes. CDC schemes are collective money purchase schemes which can be established under the Pension Schemes Act 2021 from 1 August 2022.

Schemes with relevant assets of more than £1bn but less than £5bn have an additional twelve months to comply with the climate-change governance and reporting requirements.

Trustees must include a link to the TCFD report in their scheme's annual report and financial statements produced for that scheme year.

Schemes not in scope

DB and DC schemes, in the private sector, with relevant assets of less than £1bn are outside the scope of current legislation but can adopt the governance and reporting requirements on a voluntary basis. Smaller schemes are not expected to remain out of scope so the PRAG guidance should be of interest to the trustees of any scheme seeking to stay up to date.

DWP plan for an additional metric

The Department of Work and Pensions has recently consulted on proposals to require trustees to calculate and report a metric setting out the extent to which their scheme's investments are aligned with the Paris Agreement goal of limiting the global average temperature increase to 1.5 degrees Celsius above pre-industrial levels.

All trustees who are subject to the climate-change governance and reporting regulations are expected to have to produce the new metric from 1 October 2022. There is no plan for a phased roll-out of this metric.

The consultation closed in January 2022 and the consultation outcome is awaited.

More about the PRAG guidance

The guidance was prepared on behalf of PRAG by its ESG Working Party and is available to PRAG members on the PRAG website.

The PRAG guidance signposts related guidance published by The Pensions Regulator (TPR) on Governance and reporting of climate-related risks and opportunities.

TPR's guidance supports Governance and reporting of climate change risk: guidance for trustees of occupational schemes issued by the DWP. The DWP guidance is statutory.

UK ENDORSEMENT BOARD ADOPTS IFRS 17– ITS FIRST MAJOR STANDARD

The UK Endorsement Board (UKEB) has announced that it has approved the adoption of the International Accounting Standards Board's (IASB) International Financial Reporting Standard (IFRS) 17 Insurance Contracts for use by UK companies. It is the first major standard adopted by the UKEB since the UKEB received delegated powers from the Business Secretary on 22 May 2021.

IFRS 17 is a significant new accounting standard for the insurance sector and is the result of many years of work by the IASB, with extensive input from a wide range of international stakeholders. IFRS 17 represents the first comprehensive international accounting standard that can be applied to all types of insurance contracts, aiming to ensure that entities provide relevant information that faithfully represents those contracts.

It replaces IFRS 4 Insurance Contracts, an interim standard, which permitted insurers largely to continue to apply their existing (local) accounting practices. This has meant that insurers may have applied different accounting policies to measure similar insurance contracts written in different countries.

The objective of IFRS 17 is to provide more transparent and useful information about insurance contracts. IFRS 17 introduces consistent principles, improving international comparability. Insurers must use updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Profits are only recognised as the company delivers services and companies must provide information about insurance contract profits they expect to recognise in the future.

IFRS 17 is effective for annual periods beginning on or after 1 January 2023, with early application permitted for entities that apply IFRS 9 Financial Instruments on or before the date of initial application of IFRS 17.

The standard can be viewed on the ifrs.org website. Please note that registration is required but that access to the standard itself is free.

FRC PROPOSES REVISED ISA (UK) 600

The Financial Reporting Council (FRC) has published its proposed revised version of International Standard on Auditing (ISA) (UK) 600 'Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)'. This follows the finalisation by the International Auditing and Assurance Standards Board (IAASB) of its revised version of ISA 600 in December 2021. Some confirming and consequential amendments are also being made by the FRC to other ISAs (UK), including to ISAs UK 220, 230, 240 and 315.

The revised ISA (UK) 600, focuses on the risk of material misstatement at the group financial statement level, clarifies the linkage to other standards, and reinforces the need for robust communications during a group audit. As the FRC is satisfied that the revised standard has been amended to sufficiently address matters that it raised its comment letter on the IAASB's Exposure Draft, the FRC is proposing minimal UK material in addition to the existing UK pluses included in the current version of ISA (UK) 600. Comments on the FRC's exposure draft are requested by 8 July 2022.

The majority of the UK additions to the standard are existing UK pluses already included within the current version of ISA (UK) 600. These additions relate primarily to UK specific legislation, such as access arrangements for components included in paragraph 51-1 and competent authority access to working papers for the purposes of supervision and enforcement activities included within paragraphs 59-2 and 59-3. These enhancements are supported by those the FRC made to ISA (UK) 240 (Revised May 2021) 'The auditor's responsibilities relating to fraud in an audit of financial statements' to clarify the auditor's responsibilities in relation to fraud in group audit.

Further additional UK specific material has been included to aid in clarifying the relevant ethical requirements applicable to group audits, to clarify the group engagement partner and their firms' responsibilities as a result of the implementation of International Standard on Quality Management (ISQM) (UK) 1, ISQM (UK) 2 and ISA (UK) 220, and to provide additional clarity on the relationship between the defined terms 'engagement team', 'group auditor' and 'component auditor'. These are highlighted in the table below.

Key UK Addition	Revised ISA (UK) 600 Paragraph Reference	Explanation
Clarification of the relationship between engagement team, group auditor and component auditor.	Para 14 (h)	The definitions in paragraphs 14 (h) and (c) of group auditor and component auditor, along with the definition of engagement team are contained in ISA (UK) 220. However, the FRC feels that the addition of a diagram within ISA (UK) 600 to bring the three concepts together in one place, and to clarify their relationship to each other, is beneficial to users' understanding.
Clarification of group engagement partner, and their firms', responsibilities	Para 16-1	ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220 have recently been substantially revised in order to improve the quality of engagements through addressing key public interest issues related to the management of quality at a firm and engagement level and the performance of engagement quality reviews, with an effective date of 15 December 2022. As such, the FRC have included paragraph 16-1 in ISA (UK) 600 to clarify the group engagement partner and their firms' responsibilities in relation to group audits, to ensure conformity with the objectives of the recently revised quality management standards. Conforming amendments have also been made to ISA (UK) 220 to ensure consistency and clarity.
Clarification of the relevant ethical requirements in relation to a group audit in the UK	Para 25 (b) Para 25-1 A57-1 to A57-3	In line with the requirements of ISA (UK) 220, the group engagement partner is responsible for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures.4 For an audit conducted in line with ISA (UK) 600, this includes ensuring that the component auditors, as part of the engagement team, are aware of the relevant ethical requirements. The FRC's Revised Ethical Standard 2019 requires that in order to use the work of another firm, including component auditors in the case of a group audit engagement, the lead firm has to obtain sufficient appropriate evidence that the component auditor is independent in accordance with supporting ethical provision 2.4 of the FRC's Ethical Standard. The FRC has included additional wording within paragraph 25 (b) to make clear that, in the UK, the group engagement partner must confirm with the component auditor that they are able to comply with the FRC Ethical Standard requirements that are relevant to the engagement. They have also included additional application material, paragraphs A57-1 to A57-3 and linked to ISA (UK) 220 where relevant, to provide additional clarity and to support auditors in complying with this requirement. The FRC Ethical Standard requirements relating to the use of other firms work in engagements are not new and have been in place since 2019, the addition of the relevant paragraphs to revised ISA (UK) 600 is to provide clarity to auditors. In addition, the FRC have included paragraph 25 (c), requiring the group engagement partner to obtain confirmation from components auditors that the ethical requirements relevant to the group audit engagement have been fulfilled, prior to dating the audit report.

The proposed effective date of revised ISA (UK) 600 is for audits of group financial statements for periods beginning on or after December 15, 2023. This is in line with the IAASB's effective date for the international version of the ISA. ICAS does not expect any significant changes to be made to the FRC's proposed revised ISA (UK) 600 following the consultation process.

The IAASB also developed a Basis for Conclusions and factsheet to support with the implementation of ISA 600, which are also available on the IAASB's website.

Summary of the key changes to ISA (UK) 600

The standard includes new and revised requirements and application material that better aligns the standard with recently revised standards, such as International Standard on Quality Management (UK) 1 and International Standard on Auditing (UK) 220 (Revised) and ISA (UK) 315 (Revised). The new and revised requirements also strengthen:

- the auditor's responsibilities related to professional scepticism;
- planning and performing a group audit;
- two-way communications between the group auditor and component auditors; and
- documentation.

The changes made to ISA 600 (Revised) are intended to:

1. *Encourage proactive management of quality at the group engagement level and the component level.*

The risk-based approach is a framework for planning and performing a group audit engagement and ensures:

- greater alignment with the requirements in ISA 315 (UK) (Revised) and ISA (UK) 330.
- a greater focus on identifying and assessing the risks of material misstatement and performing further audit procedures in response to the assessed risks.
- a greater focus on planning an appropriate approach to obtaining sufficient appropriate audit evidence (what, where and by whom).

2. *Keep the standard fit for purpose in a wide range of circumstances and in a developing environment.*

The scope of ISA 600 (Revised) is clarified through the introductory paragraphs and definitions and related application material, including whether, and how, ISA 600 (Revised) applies to:

- Entities with branches and divisions.
- Shared service centres.
- Non-controlled entities.

ISA 600 (Revised) clarifies and reinforces that all ISAs need to be applied in a group audit engagement. It includes enhanced documentation requirements and application material to emphasize the linkage to the requirements in ISA 230 and the documentation requirements in other relevant ISAs. The revised standard also clarifies what the group auditor may need to document in different situations, including when there are restrictions on access to component auditor audit documentation. It also highlights the importance of the group auditor's review of component auditor audit documentation. The review of component auditor audit documentation is directly related to, and influenced by, the group auditor's direction and supervision of the component auditors and the review of their work throughout the group audit.

3. *Reinforce the need for robust communication and interactions during the group audit.*

ISA 600 (Revised) strengthens and clarifies:

- The importance of two-way communications between the group auditor and component auditors.
- Various aspects of the group auditor's interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group auditor in the work of the component auditor.

4. *Foster an appropriately independent and challenging sceptical mindset of the auditor.*

ISA 600 (Revised) emphasizes the importance of exercising professional scepticism, including as part of the group auditor's:

- Direction, supervision and review of the work of engagement team members, including component auditors; and
- Evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for forming an opinion on the group financial statements.

Scalability

ISA 600 (Revised) introduces a principles-based approach that is intended to be adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:

Focusing on identifying, assessing and responding to the risks of material misstatement of the group financial statements; and

Including separate sections throughout ISA 600 (Revised) to highlight the requirements and application material for circumstances when component auditors are involved.

ARE YOU RESILIENT TO A RANSOMWARE ATTACK?

Written by David Fleming, Chief Technology Officer, Mitigo Cybersecurity, ICAS Partner

We've seen too many business owners having to endure it. The awful realisation that digital criminals are inside your business, stealing and encrypting confidential personal and business information and using it to blackmail you.

You know for sure that your business is going to be severely, if not terminally damaged, and you're going to have to explain yourself to the regulator, ICO and your clients.

To help you avoid this, here are our top 10 areas that accountancy firms need to address to stop ransomware.

1. *Anti-Virus (AV) software*

AV is the software application that is designed to stop malicious software getting a foot hold on your devices and to prevent bad actors (hackers) taking control of your systems.

In the end-to-end journey of a successful ransomware attack, AV will have several opportunities to halt progress. Cyber criminals will attempt to switch it off as early in the journey as they can. Make sure it is centrally controlled, kept up to date and on every device as a minimum.

2. *Email security filters*

Email platforms have filters that check incoming emails for malicious software, dodgy links and if they came from an untrusted origin.

One of the favourite ways into a business is via an email. Setting this up correctly can make sure that employees are protected from this route in.

3. *Web browsing controls*

These controls are designed to stop or warn users they are about to visit a dangerous or fraudulent website.

To get around the AV software fraudsters will often take unwitting staff to fraudulent websites. This risk can be minimised by correctly setting the controls in the browser, the AV and the operating system.

4. *Security patching*

Software providers like Microsoft or Google (Chrome) issue regular software updates that patch (fix) known vulnerabilities.

Cyber criminals will use bugs in software to compromise your defences and this is often used in ransomware attacks to get control. The simple discipline of updating these patches is probably the most neglected.

5. *Least privilege*

Every user on your system is assigned privileges that define what they can control, run, and amend.

Ransom attackers take-over users accounts and the more privileges that a user has, the more damage the attacker can do. So an approach of least privilege should be followed.

6. *Remote authentication*

When working at a non-work location (e.g. at home) how do you tell business systems who you are and how do they authenticate that?

Username and password are no longer a good enough protection for remote connection. Adding another method of authentication would stop a significant proportion of ransomware attacks.

7. *Test and scan externally facing assets*

Tests and scans of firewalls, domain addresses, login pages and IP addresses will check for vulnerabilities and gaps in your security defences.

You may not be scanning these, but the criminals are! So you need to find the open ports and poor configuration before they do.

8. *Review access management*

This is the documents, files, and folders that your system allows individuals to access.

There is a generic setting of "Everyone" in many systems. This means that everyone connected to the system can get to the documents, you do not even have to be authenticated. Access to documents should be defined by role.

9. Alerting and incident response

The controls and administration of your IT systems have alerts that warn you something is not right. An incident response plan is a rehearsed set of steps that ensure businesses respond effectively to a cyber incident.

If you prepare these two things correctly you will have a chance of stopping a ransom attack in its tracks.

10. Back-up

This is the process by which your business takes a copy of the systems, applications, and documents for use in an emergency.

Scarily few back-ups survive a ransom attack, with everything ending up encrypted. Get yourself confident that yours would survive.

ICAS have partnered with Mitigo to offer cybersecurity risk management services with exclusive discounts for our Evolve members. For more information visit the Mitigo website, or you can contact them on 0131 564 3131 or email icas@mitigogroup.com.

NATIONAL INSURANCE FOR THE SELF-EMPLOYED AFTER THE SPRING STATEMENT

The Spring Statement brought changes for the self-employed as regards national Insurance. What will this mean in practice and what should businesses and advisers watch out for?

What's new?

The key change is that from 6 April 2022 (the 2022/23 tax year onwards), self-employed traders and partners in trading partnerships will receive National Insurance credits where profits are between the Small Profits Threshold (SPT) and the Lower Profits Limit (LPL) for Class 4 National Insurance.

This was covered in the HMRC announcement on 23 March 2022 - Reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit.

The SPT and LPL were also increased. They rise from £6,515 (2021/22) to £6,725 (2022/23) for SPT, and from £9,568 (2021/22) to £11,908 (2022/23) for LPL. From 2023/24, the LPL is due to match the personal allowance for income tax threshold, at £12,570.

Note that the LPL for 2022/23 is a composite of 13 weeks at the 'old' rate and 39 weeks at the 'new' rate (equivalent to the income tax personal allowance).

Watch out for cases on the margins. Though the term 'self-employed' is often used with regard to National Insurance, the liability to Class 2 National Insurance doesn't follow the same rules as income tax.

Liability to Class 2 National Insurance is based on being 'gainfully employed', otherwise than as an employee, and covers those aged between 16 and state pension age. HMRC National Insurance Manual NIM20150 has references to the legislation (NIM20150 - Class 2 National Insurance contributions liability: Persons treated as self-employed).

What does this mean in practice?

The increase in thresholds will bring a reduction in liability, which will off-set the increase in the Class 4 National Insurance rate for 2022/23 by 1.25% to 10.25% (9% 2021/22) in respect of the Health and Social Care Levy.

But the changes will have a more wide reaching impact on businesses which have made losses, or have profits of less than the SPT or LPL.

The change affects sole traders and partners.

Trading profits between SPT and LPL

For 2021/22, individuals with trading income between SPT and LPL were liable to pay Class 2 National Insurance. This would usually be paid in a lump sum along with the 31 January income tax payment.

From 2022/23 onwards, individuals with trading income between SPT and LPL will not be liable to pay Class 2 National Insurance, but, like employees with earnings between the Lower Earnings Limit and the Primary Threshold, they will receive credit for Class 2 and entitlement to benefits and state pension, as if they had actually paid.

On reaching LPL, liability to both Class 4 and Class 2 will kick in, so creating something of a cliff edge.

Trading profits below SPT and trading losses

Individuals with trading losses, or trading profits below SPT will face the same choice as in 2021/22 of making voluntary Class 2 contributions.

In is worth noting here that:

- voluntary Class 2 contributions are cheaper and give access to better benefit entitlements than Class 3 voluntary contributions
- trading losses are treated as nil profits for these purposes, so those with losses can still pay Class 2 voluntarily
- time limits need to be met: Class 2 should be paid at the latest by 31 January following the end of the tax year. Missing this deadline brings complications and potentially missed entitlement (see Agent Update 73, September 2019)

An overview of the position can be found in the HMRC National Insurance Manual at NIM23500 (NIM23500 - Class 2 National Insurance contributions: Entitlement to pay voluntarily).

A final caution

With many businesses, quite exceptionally, making losses during the pandemic, remember that the treatment of losses for income tax and National Insurance is different. In particular, where income tax relief for losses is claimed against non-trading income, trading losses carried forward for Class 4 National Insurance and income tax purposes will differ.

There is a useful summary in the HMRC manuals at NIM24610 - Class 4 NICs: computation of liability: losses.

Conclusion

While the National Insurance changes in the Spring Statement are welcome news for businesses, advisers will need to watch the detail to ensure clients obtain the maximum benefit.

MOSCOW STOCK EXCHANGE – STATUS REVOKED

HMRC announced on 19 April 2022 that it would revoke the Moscow Stock Exchange's (MOEX) status as a recognised stock exchange. After a two week consultation on the draft order, MOEX's designation was revoked with effect from 5 May 2022.

The revocation followed restrictions on foreign investors, imposed by the Bank of Russia. On 28 February 2022, MOEX banned brokers from selling assets at the instruction of non-residents of Russia which meant that it was no longer operating in line with the normal commercial standards expected of a recognised exchange.

The removal of recognised stock exchange status limits the ability of anyone who has invested in assets traded on the MOEX to access certain UK tax reliefs which are contingent on that status – for example, exemption from withholding tax on interest bearing Qualifying Eurobonds and eligibility for inclusion in an Individual Savings Account.

The revocation order preserves the status of existing investments for existing investors in the MOEX, but the relevant UK tax reliefs will not be accessible for future investments in securities traded on the MOEX, unless and until the exchange becomes recognised again

HOMES FOR UKRAINE SCHEME: TAX TREATMENT

The Homes for Ukraine scheme allows individuals, charities, community groups and businesses in the UK to bring Ukrainians to the UK and provide free accommodation for them. People accommodating Ukrainian refugees under the scheme are being offered an optional "thank you" payment of £350 per month.

The government announced on 31 March 2022, in a statement from the Financial Secretary to the Treasury, that it will legislate to ensure that these payments will not be taxable. Landlords receiving payments should note that, as these payments will be treated as non-taxable income, any related expenses will not be allowable as tax deductions.

The government also announced that the conditions for some tax reliefs will be adjusted to take account of the Homes for Ukraine scheme. For details see the full article on ICAS.com.

EMPLOYMENT TAX EASEMENTS SLOWLY REVERT TO ORIGINAL RULES POST-COVID

Background

After lockdown was announced in March 2020, ICAS and other professional bodies collectively lobbied HMRC for some tax exemptions to be created around the certain necessary activities such as COVID-19 tests, vaccinations and working from home arrangements. Cycle to work, car sharing and optional remuneration were also affected by the lockdown restrictions.

HMRC policy teams responded positively and set about creating the necessary legislative provisions and guidance which would create easements while employers and employees were living under COVID-19 restrictions.

The main provisions

Several items which would normally be included in the Benefits Code as taxable on the employee were relaxed under a power available at Section 210 ITEPA 2003 to exempt minor benefits as & when the need arises. A table of these provisions is below. Now that covid restrictions have been largely eased, HMRC has changed some of its stances so that the items revert to being taxable benefits again – some from 6 April 2022 and some from 6 April 2023

1. **Covid testing: paid directly by employer or reimbursed to employee**

Original position pre-COVID - N/A

Position from April 2020 and/or 2021 - FA21 section 26 includes confirmation for 2020/21 and 2021/22 that where an employer provides the following to employees, it will not be treated as a benefit in kind nor as taxable earnings from an employment:

- coronavirus (COVID-19) antigen tests between 6 April 2020 and 5 April 2023
- reimbursement between 6 April 2020 and 5 April 2023 of the cost of a coronavirus antigen test
- Each of provision, payment and reimbursement are exempt.

Position from April 2022 - The position from April 2020 continues to apply for 2022/23 due to FA 2021, s 26(5) which allows for regulations to be made to extend this provision to subsequent years, and the exemption was later extended to 2022/23. This exemption applies 'as if it were contained in Part 4 of ITEPA 2003', although will remain in the Finance Act.

2. **PPE – provided or reimbursed by employer**

Original position pre-COVID - N/A

Position from April 2020 and/or 2021 - PPE is treated as exempt from income tax and NICs, where provided by employers. The employee cannot obtain tax relief on any PPE purchases they make. The relief applies only where PPE is provided or reimbursed by the employer.

Position from April 2022 - The same treatment applies on an ongoing basis.

3. **Working from home – tax relief on additional (usually household) expenses claimed by employee from HMRC**

Original position pre-COVID – Under section 336 ITEPA 2003, these could be claimed where the employee is contracted to be home based, incurs additional (usually household) expenses (e.g. heat, light) and the employer does not pay the weekly or monthly home working allowance
Position from April 2020 and/or 2021 - During COVID, the choice of working from home was removed for many office-based and some other workers. This meant that more employees could claim that they had incurred expenses which met the “wholly, exclusively & necessarily” tests as set down in S.336 ITEPA 2003. Employees could claim tax relief for the whole year simply by working at home for one week. See EIM 32790 example 12 (“Amber”)

Position from April 2022 - The easement ends on 5 April 2023 for anyone who has to work at home for at least one week in that tax year. For anyone else, the position has reverted to what it was prior to the lockdown announcements in April 2020 and fewer employees are therefore able to claim tax relief on additional expenses incurred by working from home unless their home is classified as a permanent workplace.

When claiming income tax relief employment-related expenses from 6 May 2022, HMRC will only accept postal claims using the revised P87 form in respect of employment-related expenses, including for multi-year claims. Any other form of claim will be rejected.

4. **Working from home – the employer reimburses the employee for additional (usually household) expenses incurred**

Original position pre-COVID - Section 316A ITEPA 2003 provides an exemption where employers pay employees for the additional expenses incurred when working from home. The employer can choose to pay the HMRC guideline rate (see guidance below) or a more specifically calculated rate based on evidence supplied by the employee (this only needs to be done once at the outset).

Position from April 2020 and/or 2021 - HMRC Guidance says that if an employer covers the cost of additional household expenses for an employee who works from home, the employer does not have to report or pay tax if both of the following apply:

1. the employee is working at home as agreed with the employer and they regularly work from home under those arrangements; and

2. the amount the employer gives the employee is not more than their additional household expenses or the current weekly limit (£6 a week or £26 a month from 2020-21)

Position from April 2022 - Where an employee works from home, even if only for part of the week under hybrid working arrangements, this exemption is still available. See the definition of home working arrangements as set out in later paragraphs of this article.

5. **Working from home – the employer reimburses the employee for purchasing office equipment for their own home**

Original position pre-COVID - Section 316 ITEPA 2003 exemption did not apply to this method of provision. Instead, the purchase of office equipment by the employer which the employee used at home was covered by the transfer of assets legislation at section 206 ITEPA 2003 in the event the employee was allowed to keep it, or by the assets made available for private use without transfer legislation at section 205 ITEPA 2003 where the employee's main use of it is deemed to be for a private purpose.

Position from April 2020 and/or 2021 - Income Tax (Exemption for Coronavirus-Related Home Office Expenses) Regulations 2020 provided a temporary exemption for employers to provide the necessary equipment to allow employees to work at home in accordance with Health & Safety regulations. HMRC guidance says that an employer can reimburse an employee for equipment they bought to work from home because of COVID-19. Until 5 April 2022, the employer does not have to pay tax on it if the employee:

- agreed the purchase with the employer in advance;
- mainly uses the item for business purposes;
- keeps the equipment.

Position from April 2022 - This easement ended on 5 April 2022 as employees who work from home can now access the employer's premises and obtain the necessary equipment to work from home from there, free of charge, where necessary, or the employer can have it sent to the employee's home*.

Agent Update Issue 94 confirmed this position.

6. **Working from home– the employer purchases and provides the employee with the necessary equipment to work from home**

Original position pre-COVID - Section 316 ITEPA 2003 applies

Position from April 2020 and/or 2021 - HMRC Guidance says that, in respect of equipment an employer provided during COVID-19 so an employee could work from home, the employer does not have to pay tax on this as long as the employee returns the equipment to the employer. Note, however, that the provision of employer-owned assets can incur a taxable benefit charge under the transfer of assets provisions at Section 206 of ITEPA 2003, where the employee is allowed to keep the asset.

Position from April 2022 – as pre-pandemic.

7. **Hybrid working arrangements – travelling expenses**

Original position pre-COVID - N/A

Position from April 2020 and/or 2021 - N/A

Position from April 2022 – An update to HMRC's Hybrid Working: Employment Income Manual Guidance says "More employers are offering hybrid working arrangements and we have updated guidance within the Employment Income Manual to reflect this. There have been no changes to the relevant legislation or policies. We have introduced new signposting pages for travel expenses to enhance navigation across the existing guidance and to highlight pages that are most appropriate to those working under hybrid working arrangements. These can be found at EIM31801, EIM31802 and EIM31803. We have made amendments to guidance on the tax treatment of certain homeworking costs and equipment, as well as the homeworking deduction, to provide certainty of our view on the application of such rules under hybrid working arrangements. The guidance at EIM21611, EIM01471, EIM01472, EIM32790, EIM32795 and EIM32810 has been amended."

8. Flu vaccinations

Original position pre-COVID - Flu vaccinations have traditionally been available free of charge to eligible UK citizens, but there was confusion around these and the COVID-19 vaccination programmes during lockdown and some employers were willing to pay for them for their employees.
Position from April 2020 and/or 2021 - HMRC say "We understand that free NHS flu vaccines are only available to qualifying individuals. However, this policy ensures that those most vulnerable (50s and over, those with certain health conditions, pregnant women, etc.) can benefit from a free flu vaccine.

For all other employees who do not qualify for a free flu vaccine, voucher schemes were made available to ensure that they can receive a flu vaccine from their employer free of tax and NICs. Alternatively, where voucher schemes are not available, employers can use a PAYE settlement agreement (PSA) to meet the tax and NICs liability for their employees. We therefore encourage employers to support employees by either providing flu vaccine voucher schemes, or by using a PSA. Therefore, in light of the above, we are not looking to make any policy changes at present to extend the tax exemption to flu vaccine reimbursements."
Position from April 2022 – This continues to apply.

9. Cycle to work

Original position pre-COVID - Section 244 ITEPA 2003

Position from April 2020 and/or 2021 - HMRC say "Due to the impact of the coronavirus pandemic, in December 2020, the UK government announced a time limited easement. The easement was for employees who, on or before 20 December 2020:

- Joined an employer-provided cycling scheme; and
- received a cycle or cyclist's safety equipment.

Employees who joined a scheme from 21 December 2020 would need to meet all the normal conditions of the Cycle to Work scheme. Where eligible, employees would not have to meet the 'qualifying journeys' condition until after 5 April 2022.

Position from April 2020 and/or 2021 - The original rules of the scheme now apply once more. As of 5 April 2022, all employees on an existing cycling scheme need to meet the normal conditions, including the 'qualifying journeys' condition.

10. Optional remuneration arrangements

Original position pre-COVID - Section 69A ITEPA 2003

Position from April 2020 and/or 2021 - HMRC updated its draft guidance on the changes to the Optional remuneration arrangements rules to reflect that an OpRA agreement is not regarded as 'varied' where the variation is caused by COVID-19. HMRC has made the same change in its guidance on Salary sacrifice for employers.

Position from April 2020 and/or 2021 - This principle still applies, however now that lockdowns have finished and employees are returning to work, it is highly unlikely that this would currently be accepted as a reasonable excuse to vary a contract, unless the individual was seriously ill with COVID-19.

11. Car sharing

Original position pre-COVID - Employees could choose to car share to commute to work prior to COVID-19 – this was outside of the benefits in kind regime unless the employer paid for the costs (unless the bussing employees to work provisions applied at Section 242 ITEPA 2003 and SI 2002/205).

Position from April 2020 and/or 2021 - HMRC confirmed that an exemption can apply for journeys paid or provided by an employer where an employee's car sharing arrangements fail due to unforeseen circumstances – and those circumstances are coronavirus related.

Position from April 2020 and/or 2021 - The usual car sharing rules are now back in place following the end of lockdown and requirement to wear masks in England. This means that an employer can no longer pay an employee's commuting costs without this being taxable through payroll if reimbursed or as a benefit in kind if paid directly (subject to the exemptions available on bussing employees to work).

A reminder of the definition of 'Homeworking Arrangements' under [Section 316A ITEPA 2003]

HMRC's internal manuals state:

"There is a definition of 'homeworking arrangements' in section 316A(3). You can accept that there are homeworking arrangements where 2 tests are met:

- there must be arrangements between the employer and the employee
- the employee must work at home regularly under those arrangements

"The arrangements need not be in writing but usually will be. They do not need to apply to all employees. The exemption does not apply where an employee works at home informally and not by arrangement with the employer.

"For example, it will not apply where an employee simply takes work home in the evenings. It applies where an employee works at home by arrangement with the employer instead of working on the employer's premises. The exemption may also apply where the arrangement involves hybrid or flexible working.

"You should accept that an employee works at home regularly where working at home is frequent or follows a pattern. For example, where an employee agrees to work 3 days each week on the employer's premises and 2 days at home you should accept that the work at home is regular. This will be so even if the days on which the employee works at home vary from week to week."

Conclusion

Employers and agents should be mindful of the easements and the end dates to ensure that the original regulations in relation to these items apply once the easements have ended, where appropriate.

The Employer Bulletin April 2022 edition contains an article entitled: "Working from home: Claiming Tax relief from April 2022"

HMRC AND COMPANIES HOUSE UPDATES

HMRC update on SEISS compliance activity

HMRC have powers to recover a grant paid to a claimant when they are not entitled to it. If a taxpayer's tax return for any of the years from 2016/17 to 2019/20 is amended on or after 3 March 2021 and they are no longer entitled to the amount they originally claimed for either their fourth or fifth (or both) SEISS grant, they need to repay the amount they were overpaid by HMRC. If a taxpayer has been overpaid on their fifth SEISS grant, HMRC will also compare the reference year (2018/19 or 2019/20) turnover figure they entered when claiming the grant, with the declared turnover figure on their latest tax return. If the figures don't match and this means that they received an 80% grant when they should have received a 30% grant, HMRC will ask them to repay the difference.

HMRC have started to recover these overpaid SEISS grants. They are now contacting a small percentage of fourth and/or fifth grant claimants, whose entitlement to those grants has been reduced by more than £100, to recover these overpaid grants. HMRC started sending assessments and explanatory letters from 22 April 2022.

Although HMRC won't be raising assessments to recover overpaid grants of £100 or less, claimants can use the voluntary repayment service if they wish to repay these sums. Information on this is available at https://www.gov.uk/guidance/tell-hmrc-and-pay-the-self-employment-income-support-scheme-grant-back

VAT Registration Service

Development work on the new VAT Registration Service (VRS) remains on track to launch the VRS in the summer. Further details on timelines, and what you and your clients will need to do will be published in future Agent Updates.

Companies House PSC discrepancy tool removed

Earlier this year Companies House updated its PSC discrepancy reporting service. From 7 June 2022 the Smart Survey tool will no longer be available. Obliged entities will need to use the new online service to tell Companies House about discrepancies between the information on the PSC register and the information they hold.

More information on the PSC reporting obligations can be found here.

Extended Loss Carry Back

The Extended Loss Carry Back easement allows companies to make claims to carry back losses of accounting periods ending between 1 April 2020 and 31 March 2022 by a further 2 years. Claims that *exceed the £200,000 de minimis must be made in a* Company Tax Return. Box 45 on the CT600 should be completed and include details of the carry back claims in the computations accompanying the CT600 and accounts. Amended returns do not need to be submitted for the periods the extended relief applies to as the claims will be treated as amendments to those returns.

Non-resident UK income easement

In 2020, HMRC introduced guidance for non-UK resident employees stuck in the UK because of coronavirus travel restrictions. This stated that those employees would not be taxed on earnings for duties performed in the UK after their planned departure date, provided they were taxed in their home state. This easement will end on 5 April 2022. If your client is non-UK resident, any days they spend working in the UK from 6 April 2022 onwards will be treated as days on which they performed duties in the UK.

Authorisation to discuss SEISS grants on behalf of clients

The usual 64-8 agent authorisation process does not cover COVID-19 support. HMRC will need additional authorisation if you need to discuss SEISS issues before a Self-Assessment tax return is filed. After a return is filed, the usual 64-8 authorisation will apply.

You can ensure authorisation is in place by following these steps before a Self-Assessment tax return is filed by getting your client to write to HMRC with their name, address, tax reference number (for example their Unique Taxpayer Reference (UTR)) and signature, as well as the name and address of the agent they wish to authorise. This should be sent to: National Insurance contributions and Employers Office, HM Revenue and Customs, BX9 1AN. Alternatively, a client can call HMRC on 0300 200 3310

If you plan to contact HMRC about your client's SEISS grants, you should speak to them first and make sure consent is in place, and if not, allow time for this to be sent and processed.

Enterprise Management Incentive: COVID-19 easement ending

Usually, employees who take part in an Enterprise Management Incentive (EMI) scheme need to either:

- work at least 25 hours per week or,
- if less than that, at least 75% of their working time as an employee for the company whose shares are subject to the EMI option, or a qualifying subsidiary (this is the working time requirement)
- During the pandemic, HMRC put an easement in place for employees who would usually have met the working time requirement but were unable to do so because of COVID-19.

As a result of this easement, the time employees would have spent on company business counted towards their working time, and a reduction in working time due to COVID-19 was not considered as a disqualifying event while the easement was in place.

These easements ended on 5 April 2022. From 6 April 2022 all employees participating in an EMI plan must meet the usual working time requirement again.

Disguised remuneration tax avoidance schemes — settlement opportunities

Disguised remuneration schemes are arrangements that pay loans instead of ordinary income to avoid Income Tax and National Insurance contributions. HMRC has published an “issue briefing” about disguised remuneration tax avoidance schemes and how people can settle their use of them and/or pay the loan charge that has been introduced to tackle their use.

HMRC has also published a new “settlement opportunity” for people who have used a certain type of tax avoidance schemes involving a particular type of trust, commonly known as “remuneration trusts”. The opportunity is open for applications until 31 July 2022 and is only for individuals or companies, whose scheme use meets certain criteria which are set out fully in the terms.

More information can be found here.

Social security coordination with the EU: COVID-19 easement ending

During the pandemic, HMRC disregarded changes to individuals’ work locations caused solely by COVID-related restrictions when deciding whether National Insurance contributions are due in the UK. This approach will end on 30 June 2022.

From 1 July 2022, HMRC will consider all changes to work location under the standard social security coordination rules when deciding whether UK social security legislation applies, and UK National Insurance contributions are due in the UK.

If an employer or employee needs proof that they have to pay UK National Insurance contributions while working in the EU, they should read guidance on National Insurance for workers from the UK working in the European Economic Area (EEA) or Switzerland to apply for a PDA1 certificate.

HMRC’s new powers to tackle electronic sales suppression

The Finance Act 2022 includes new powers and penalties to tackle electronic sales suppression (ESS) which have now come into effect.

ESS is a growing form of tax evasion where a business manipulates electronic sales records. The business does this either during or after the point of sale. This activity hides or reduces the value of individual transactions. It reduces the recorded turnover of the business and corresponding tax liabilities, whilst providing what appears to be a credible and compliant audit trail.

The new powers under Finance Act 2022 tackle the possession, production, supply and promotion of ESS software and hardware, with penalties of up to £50,000 for each of these offences. The Act also provides HMRC with ESS-specific information powers, which will allow HMRC to obtain details of those involved in the supply chain of ESS tools, and details of traders which HMRC suspects are using the tools.

The legislation includes taxpayer safeguards. On the first occasion that HMRC has reason to believe a business possesses ESS software, the business is given a 30-day grace period to remove the software in order to avoid a penalty. Businesses also have the right to appeal against penalties.

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