



AUDIT MONITORING
ANNUAL REPORT 2016



2016

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INTRODUCTION

We are pleased to present our annual report for 2016. As in previous years, this report aims to provide transparency over our work and includes:

- An overview of the activities of ICAS Audit Monitoring during 2016;
- Key messages and detailed findings arising from monitoring visits; and
- Additional news and information for 2017.

We hope that you find it useful in considering how effectively your firm is complying with regulatory requirements. We encourage you to share the report with your colleagues, and also to utilise the key messages when conducting your own Audit Compliance Review process.

If you have any comments or questions, please contact us on auditandpracticemonitoring@icas.com.

WHAT WE DO

Background: Developmental Regulation

We aim to deliver Developmental Regulation. This means that our Audit Monitoring regime is designed to both:

- support the work of ICAS audit registered firms; and
- uphold standards and provide reassurance to the public over audit quality.

Our primary aim is to work **with**, and to **support**, firms to make any improvements required.

We will still take regulatory action in the most serious of cases, but we see this as being exceptional.

What we review

ICAS is a Recognised Supervisory Body (RSB) for audit in the UK and Audit Monitoring monitors firms which are audit registered with ICAS.

On 17 June 2016, the UK audit regulatory regime changed following implementation of the EU Regulation & Directive. Now all regulatory powers sit with the Financial Reporting Council (FRC) which can choose to delegate various regulatory responsibilities to the RSBs. It cannot delegate the monitoring, investigation and discipline of Public Interest Entity (PIE) audits.

The FRC has delegated to ICAS the responsibility for monitoring all our audit firms, except for firms auditing PIEs. The frequency and timing of audit visits to firms hasn't changed and the visits are still selected on a risk basis and all firms will, in the main, be visited at least once every six years.

Firms auditing PIEs are different and will now be the monitoring responsibility of the Audit Quality Review team of the FRC. ICAS is still involved in reviewing the non-PIE audits of such firms, but the FRC leads such visits, and our role is reduced.

What will be the impact of Brexit, given these changes have been EU driven? We don't see the UK Government making any changes post Brexit and, at this stage, we would expect this regime to remain in place.

How we review

Our visit process is:



The size of firms registered with ICAS to conduct audit work varies and the monitoring visit approach is tailored to reflect the nature and client base of each firm.

Governance changes

From 17 April 2016, ICAS simplified the committee structure that dealt with the various practice licences and now one committee, the Authorisation Committee, is responsible for all regulatory licences and monitoring visits, including audit registration and audit monitoring visits. This Committee reports to the Regulation Board, which is responsible for setting regulatory policy.

This Committee has operated well during 2016. Reports where no follow up action is needed are now delegated to the monitoring teams to clear, subject to regular oversight by the Committee. This has sped up the closedown process. The Committee reviews and makes the final decision on all reports where follow up action is required.

Monitoring changes during 2016

We implemented a couple of key changes:

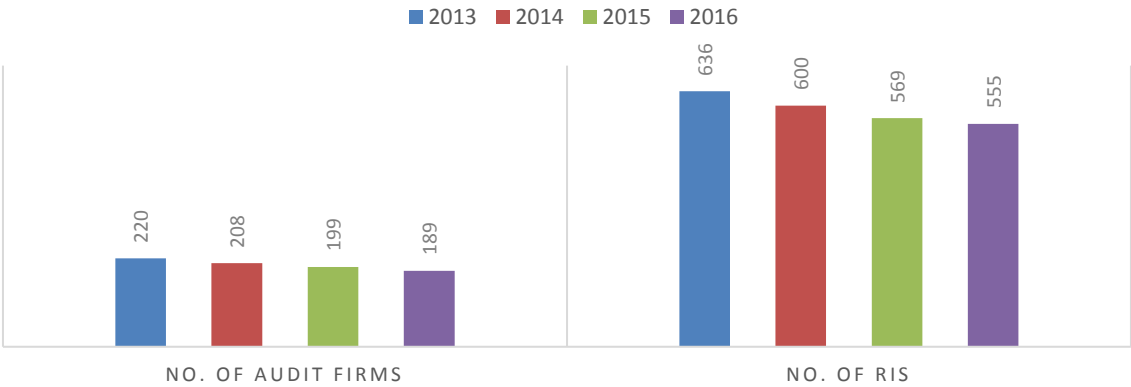
- **Desktop reviews of audit firms with no current audit clients:** we enhanced our monitoring approach and are now conducting desktop reviews. Such firms require to submit information and documentation in advance of the desk top review. The information requested can vary but will generally include: CPD records; the whole firm review conducted as part of the firms Audit Compliance Review; fit and proper, and independence declarations; and PII details. A formal report is issued following the review process.
- **Interim Calls:** We have introduced interim calls to ensure that we make contact with a sample of firms in the intervening periods between visits, to ensure that these firms are staying on track with audit compliance and to ensure that the firm is keeping abreast of changes. If your firm is selected for an interim call, your firm will be notified in advance. These interim calls were well-received by firms during 2016.

For more information about the Audit Monitoring team, and on our monitoring visit process, please search for “[audit monitoring](#)” at [icas.com](#).

Who we review

The number of ICAS audit registered firms and approved Responsible Individuals (RIs), has reduced slightly year-on-year. This continues to be due to the increase in the audit threshold, and the increased regulatory framework.

ICAS Audit Authorisations

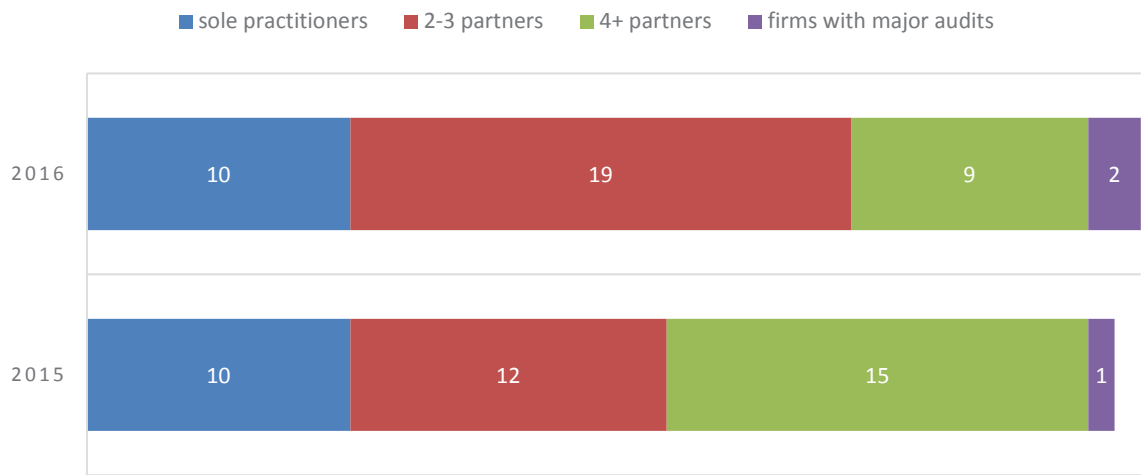


2016 MONITORING RESULTS

Visits

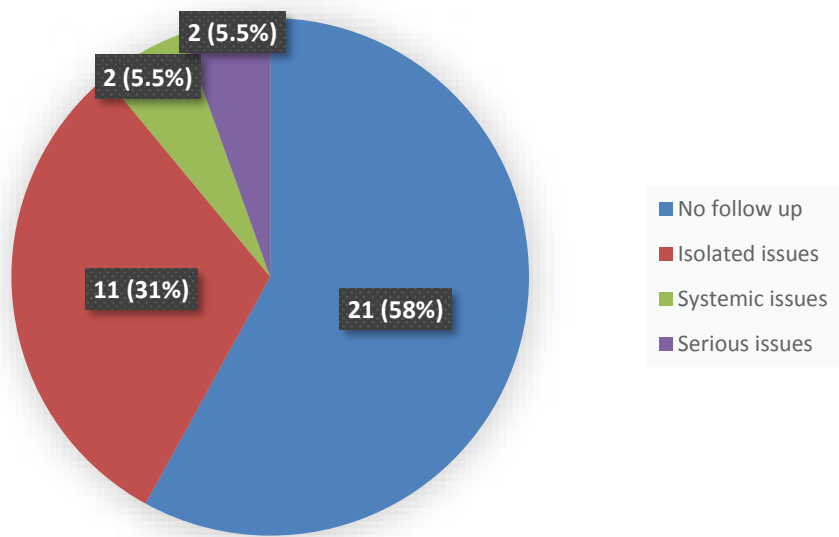
In 2016 we conducted 40 Audit Monitoring visits (2015: 38), covering our full range of firms. 36 of the visits were full-scope visits; 2 were restricted to file reviews of specific types of engagement; and 2 were desktop reviews of audit firms with no current audit clients. The table below shows the size of the firms we visited in 2016.

Firms Visited



Visit outcomes

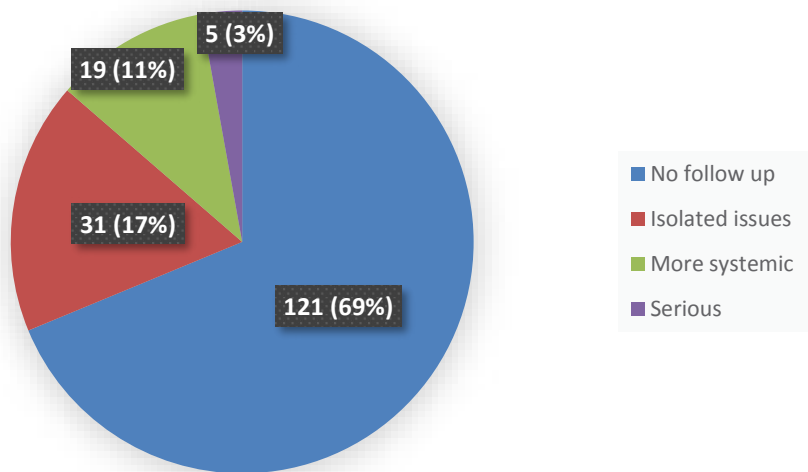
The results for the 36 full scope visits in 2016 were:



All isolated, systemic issues and serious issues resulted in the Authorisation Committee requiring the firm to submit evidence of follow-up action. The above shows that 89% of firms receiving a full-scope visit during 2016 had no systemic/serious audit quality issues.

Looking at the cumulative outcomes of the last visit to each live audit firm:

Cumulative audit monitoring results for all 'live' firms



This indicates that 86% of all our current audit firms visited had no systemic/serious audit quality issues at their last monitoring visit.

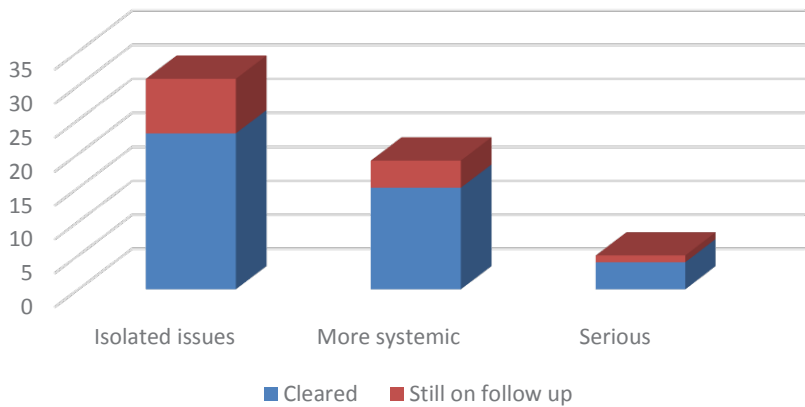
The firms requiring a greater level of action to enhance quality are those falling into the 'more systemic' and 'serious' groups (11% during 2016, or 14% overall looking at all live audit firms). Such firms would be required to provide a greater level of evidence to demonstrate improvement, and this ranges from submitting external hot file reviews; cold file reviews; and CPD records, through to the more serious cases, where other regulatory interventions may be required.

Developmental Regulation means that as well as the range of follow up measures above, ICAS provides a range of audit support (see our 'ICAS Support' section), and includes our mandatory audit course and Audit News. Firms are also encouraged to engage with external compliance reviewers, such as our Practice Review Service, to make the necessary improvements.

The aim of this combination of follow-up action and support is for firms to improve audit quality, rather than for ICAS to withdraw audit registration, and there were, therefore, no instances of the Committee withdrawing audit registration in 2016.

Of the 56 firms which were subject to follow-up (of which 16 related to visits in 2016), the majority have successfully shown improvement and cleared the visit process. The remaining firms were visited more recently and are still working on making improvements.

Firms previously on follow up



Audit file standards

All Recognised Supervisory Bodies in the UK use a common method of assessing audit quality on individual files reviewed. In 2016 we reviewed 113 audit files (2015-96; 2014-110; 2013-112 files) across the visits conducted.



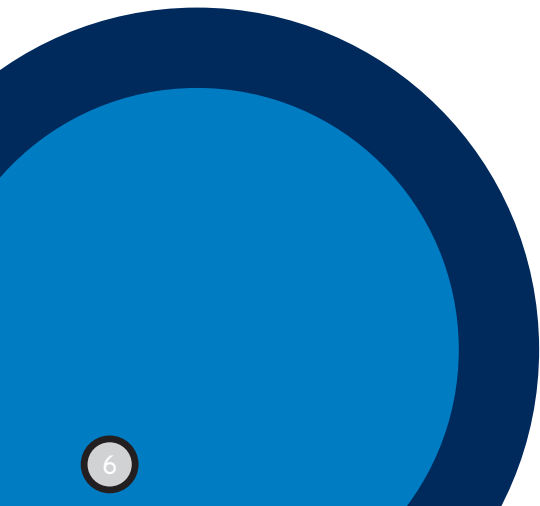
There has been some reduction in file standards seen during 2016. Appendix One provides more detailed analysis of our findings. More evidence issues were found on monitoring visits during 2016 than last year, and this could be due to a lack of focus at the planning stage of the audit in considering key risks and the most appropriate audit approach to those risks.

Other key themes include the knock-on impact of UK GAAP changes and FRS 102, and changes within audit practices.

Other underlying causes for poor visit outcomes continue to relate to:

- Ineffective use of audit programmes;
- Over-reliance on accounts production software; and
- Ineffective audit compliance reviews.

All underlying causes are explored in the next section.



KEY MESSAGES

Most firms continue to demonstrate good audit quality standards. Nevertheless, there are always learning points on monitoring visits and our detailed 2016 findings can be found in Appendix One to this report.

The section below focusses on several key 'take-away' messages for firms.

New UK GAAP: FRS 102

If there is one key message in this report, it is the importance of staying on track with FRS 102 and ensuring that sufficient training, planning, and resources are devoted to this area.

We expect the next two years to be challenging for firms in implementing UK GAAP throughout their client base for audit and non-audit clients. FRS 102 implementation is well under-way and firms are starting the implementation of FRS 102 1A or FRS 105 for smaller entities.

This report does not provide a technical update on the new regulatory framework, as this is covered in previous editions of Audit News which can be accessed by searching on 'Audit News' after logging in to icas.com. In addition, our Policy Leadership team have also issued UK GAAP guidance on the website which can be accessed by searching on "UK GAAP".

We are anticipating that audit quality standards may dip temporarily as firms get to grips with the increased disclosure and measurement requirements, and urge firms to focus on ensuring audit compliance is maintained throughout this process.

We only started to have access to audited accounts prepared under FRS 102 towards the end of the 2016. A number of firms appear to have held-off as long as possible before completing the audits. This could lead to firms facing significant workload pressures.

Audited FRS 102 accounts were reviewed in 12 firm visits conducted in the second half of the year. Of the 20 files reviewed:

- Half had disclosure omissions;
- Just under half have audit fieldwork documentation issues in relation to FRS 102; and
- Audit planning issues were identified at most firms in relation to FRS 102.

3 of the 12 firms required follow-up action in relation to FRS 102 alone.

It is, therefore, important that firms devote sufficient resources to this area in order keep on track. The key common sense tips are:

Tips:

- **TRAIN:** Ensure that all your RIs and audit staff have obtained sufficient training in UK GAAP sufficient to understand the requirements, and identify the key issues on each audit.
- **PLAN:** Don't leave FRS 102 until the end of the audit. Plan ahead how the key requirements will affect your client and the evidence you will need. Ensure you have considered the transitional disclosures required.
- **RESOURCES:** Ensure you have factored in enough time and staffing on the audit to deal with the additional requirements. On average firms are indicating that audits are taking 20-30% more time.
- **ACCOUNTING SOFTWARE:** Don't over-rely on your accounting software. Some of the software providers have provided more disclosures than required which require editing down, whilst others require the firms to add in additional disclosures. Either way your FRS 102 knowledge is important, you will need to factor in enough time to make changes and this time shouldn't be underestimated.
- **ETHICS:** think about what the client is expecting you to do and consider the ethical implications. Our previous editions of Audit News cover this area.
- **COLD FILES:** Think about conducting cold file reviews of your earlier FRS 102 and FRS 102 1A accounts to ensure that any lessons can be learnt early on. Practice Support can help with this.

Plan, plan and plan.....

As mentioned in the previous section, we have seen an increase in planning issues and a resulting increase in audit evidence issues. The two are connected.

Tips:

Firms are advised to consider whether enough time is being devoted to understanding the entity and its risks, and the most effective audit approach to address these risks, before launching into the audit work.

Changes in firms

We have seen correlation between practice changes and audit quality. A number of the firms on follow up have had significant changes such as:

- Re-organisation of principals and staff;
- Serious ill-health issues or absence of key principals;
- A change in Audit Compliance Principal; and
- The retirement or departure of key principals or staff.

Tips:

Whilst some of these changes may not be within your firm's control, your firm can take steps to manage these challenges and minimise their impact. We would always advise you to bring in additional measures such as external cold file reviews or external support to help you through challenging times. Please contact our Practice Support team if you need help.

Eligibility

As covered in our last report, and in previous editions of Audit News (most recently editions 61 and 58), a number of firms have failed to identify that their firm has no longer meets the eligibility requirements of the [Audit Regulations](#). Such issues are viewed seriously by the Authorisation Committee. The key Audit Regulations are 2.02, 2.03 and 4.01.

Tips:

- **Ensure that the majority of the voting rights in your audit firm are held by persons holding an 'appropriate qualification' (or are 'Registered Auditors').** There have been cases where firms have set up a parent company which hold the majority of the voting rights in the audit firm, but the firms hasn't realised that the parent would require to be audit registered. Firms could, for example, avoid the need for the parent to be audit registered if it only held 49% of the votes and 51% was held by audit qualified persons.
- **Ensure that if any principals in the firm are not members of ICAS, ICAEW, ICAI or ACCA (and the principal is not a registered audit firm), that the principal has applied to, and been approved by, ICAS to become an affiliate.**
- **Ensure that all audit engagement leads, including non ICAS members, have applied to ICAS to become Responsible Individuals in your firm.** Holding the audit qualification (such as the ICAEW audit qualification or the ACCA PC/AQ status) isn't enough and all audit engagement principals must be approved by the RSB which regulates your firm.
- **Ensure that you have applied for RI status for any RIs moving from another firm.** RI status is not portable and does not move from firm to firm so if an RI has moved, the new firm needs to apply for RI status again but the process will be straight forward.
- **Ensure all Audit Compliance Principals are Responsible Individuals approved by ICAS as above.**

Other recurring issues

As highlighted in last year's report, there are some common underlying causes of audit quality issues, being:

- **Lack of adherence to audit procedures:** particularly firms cutting corners or not completing the full audit programmes for smaller audit clients. This often results in a number of auditing standards being ignored.
- **Over-reliance on accounts production software:** as already highlighted in our UK GAAP section above.
- **Ineffective Audit Compliance Review process:** the Audit Compliance Review process, which includes both a whole firm and cold file reviews, is vitally important in ensuring that the firm can conduct its own annual 'health-check' over audit quality. All too often, the cold file review process is either:
 - o not completed; or
 - o is conducted in-house using a checklist based approach rather than thinking about the quality of audit work and audit evidence; or
 - o effective cold file reviews are conducted but the findings are not actioned quickly.

Tips:

Audit procedures:

- Ensure consistent completion of audit procedures across all offices and RIs.
- Consider whether the fee charged allows sufficient time for the audit work to be performed, or whether reallocation of tasks is required.

Audit Compliance Review:

- Ensure the firm's cold file review process considers whether audit programmes have been used effectively, or where improvements could be made.
- Ensure the cold file reviewer is suitably experienced to conduct a thorough review, and consider using an external reviewer if there is insufficient internal resource, or to be compliant with a specific Audit Regulation requirement.
- Ensure all RIs are covered in the cold file review process on a cyclical basis.
- The review should assess the quality of the work performed, rather than merely checking that programmes are completed.
- Specialist audit clients should be included in cold file reviews each year.
- Action points arising from the review should be collated and circulated to ensure points are addressed in a timely manner.
- Subsequent cold file reviews should check that previous actions have been taken.
- We would encourage firms to consider 'rolling' cold file reviews, particularly in light of FRS 102 implementation.

ICAS SUPPORT

We take a developmental approach to regulation, and we have a number of initiatives to assist our audit registered firms in complying with the ISAs and Audit Regulations.

Free UK GAAP Events: Bridge the GAAP

During March to May 2017 we are rolling out a number of UK GAAP events which are free for our practitioners.

The events focus on the challenges firms are facing in the implementation of the new UK GAAP (FRS 102), and how to avoid the pitfalls and stay on track.

The events cover both company accounts and charity accounts and focus on:

- UK GAAP findings coming out of recent monitoring visits and FRS 102 surgeries; and
- Key issues in relation to charity accounts and independent examinations.

The speakers are members of our monitoring team and from our technical team.

We also hope to record one of the events to make it more widely available to practitioners who cannot attend.

For more information on the events please search '[bridge the gaap](#)' at icas.com.

Mandatory audit quality course: Keeping Audit on the Right Track

Our mandatory audit quality course continues to receive very positive feedback, and has continually been redeveloped and updated to reflect comments received.

We have also recently been delivering some bespoke versions of this course to a number of audit firms, which have been well-attended and have proved successful, allowing for a more discursive training session. We are happy to take enquiries from firms who wish to discuss this approach, although we note that this will only be considered when cost effective for both parties.

Tips:

Firms are reminded of the mandatory course attendance requirements:

- Each Audit Compliance Partner will be required to attend at least once in the three-year period from 1 January 2016 to 31 December 2019.
- Each RI will be required to attend at least once in the five-year period from 1 January 2016 to 31 December 2020.
- Each newly approved RI will be required to attend the course within 12 months of being approved.
- Previously inactive RIs (i.e. approved RIs who are not signing audit reports), who have recommenced the role, will be required to attend the course within 12 months of becoming active.

Helpsheets

We have published a number of helpsheets covering specialist and regulated audit engagements, as these can often give rise to areas of non-compliance. The helpsheets cover:

- Charities registered in Scotland;
- Charities registered in England and Wales;
- Pension schemes;
- Registered social landlords;
- Entities registered with the Financial Conduct Authority;
- Credit unions; and
- Registered societies

They are free to all members of ICAS and can be downloaded from icas.com by first logging in and searching on '[helpsheets](#)'. In addition to the sector specific helpsheets, we have one aimed at providing guidance to Audit Compliance Partners.

Audit News

We publish Audit News on a quarterly basis, which covers current topics and issues noted at monitoring visits. It is also the way we notify firms of any changes to the Audit Regulations. This is now available on-line but for each publication we produce a printer-friendly pdf. Audit News, including past publications, can be accessed by first logging into [icas.com](https://www.icas.com) then searching on '[Audit News](#)'.

Revised International Education Standard 8 (IES 8)

We have published a web-page dedicated to providing guidance on the new education standard which came into force on 1 July 2016 and is applicable to all RIs. The web-page can be accessed by first logging onto [icas.com](https://www.icas.com) and searching on [IES 8](#).

Local Audit

ICAS audit firms are reminded that if they are intending to audit local authorities in England under The Local Audit & Accountability Act 2014, they will require to be local audit registered with ICAS. For more information, please search on '[local audit](#)' at [icas.com](https://www.icas.com).



2017 NEWS

There were a lot of changes during 2016 including:

- the introduction of the new regulatory framework following the UK implementation of the EU Regulation & Directive;
- amendment to our [Audit Regulations](#); and
- the implementation of International Education Standard 8.

For 2017, the following developments are key:

Ethical Standard

As highlighted in [Audit News 60](#) the FRC has consolidated its existing five ethical standards for auditors into a single revised Ethical Standard (the 'FRC ES'). This standard applies to all audits and other public interest assurance engagements for periods commencing 17 June 2016 so will apply to audits conducted during 2017. For more information please refer to [Audit News 60](#).

The Auditing Standards and International Standard on Quality Control (ISQC1)

As highlighted in [Audit News 60](#), the FRC has made changes to reflect the EU reforms throughout the Auditing Standards and ISQC1. The revised standards apply to all audits for periods commencing 17 June 2016, so will apply to audits conducted during 2017. For more information please refer to [Audit News 60](#).

Ethical Standards for Auditors (Ireland) 2017, International Standards on Auditing (Ireland) (ISA (Ireland)), and International Standard on Quality Control (Ireland) (ISQC (Ireland))

On 14 July 2016, IAASA published its intention to obtain a license from the UK's Financial Reporting Council ('FRC') and tailor the UK FRC audit framework for use in Ireland. This work has now been completed and the Standards adopted. The Standards are mandatory for use in auditing financial statements of periods beginning on or after 17 June 2016, for which audit opinions are signed after 1 February 2017.

Minor change to our monitoring approach

During 2017 we intend to make some minor changes to the way we conduct audit monitoring visits in order to free-up more time on-site to review FRS 102 financial statements, as these are taking up significant monitoring time.

To that end we intend to ask firms to submit more information before the start of the visit so we can review this off-site before the visit. We are not asking for any additional information, just changing the timing of when we ask for it.

We will keep you informed via future editions of Audit News, as these changes are rolled-out.

APPENDIX ONE: DETAILED VISIT FINDINGS

This Appendix provides further detail on the level of compliance noted on visits and where the most common ISA findings were identified during file reviews conducted by ICAS Audit Monitoring (AM) in 2016.

Five-year visit history

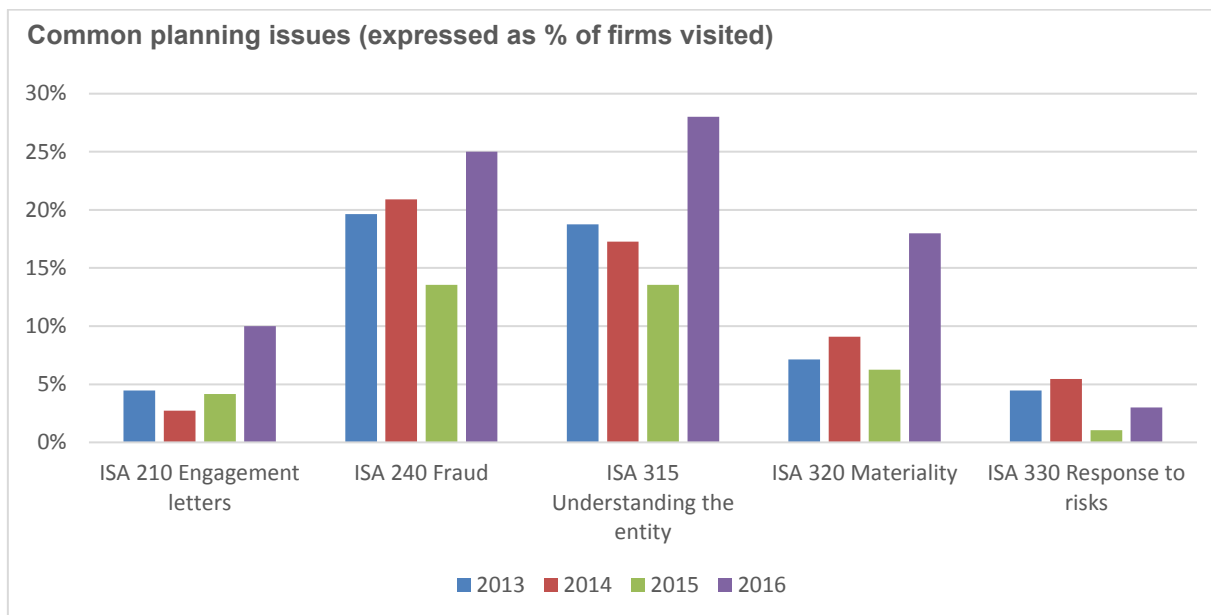
The table below shows the monitoring visit outcomes in the last five years.

Audit Monitoring visit outcomes	2012	2013	2014	2015	2016	Total
No follow up	18 (45%)	24 (58%)	23 (59%)	28 (73%)	21 (58%)	114 (59%)
Isolated issues - firm to submit evidence of action	9 (22%)	6 (15%)	11 (28%)	3 (8%)	11 (31%)	40 (20%)
More systemic issues - firm to submit evidence of action	8 (20%)	6 (15%)	3 (8%)	4 (11%)	2 (5.5%)	23 (12%)
Serious issues – follow up/other regulatory actions	5 (13%)	5 (12%)	2 (5%)	3 (8%)	2 (5.5%)	17 (9%)
Total full visits	40	41	39	38	36	194 (100%)
Restricted visits/desktops	0	0	0	0	4	
Total visits	40	41	39	38	40	

The visits above include firms which are now ceased audit registration. Looking at the visit outcomes of all current 189 'live' audit firms:

Visit outcomes	Number of live firms
No follow up	121 (69%)
Isolated issues	31 (17%)
More systemic issues	19 (11%)
Serious issues	5 (3%)
Total visited full-scope	176
Zero audit firms (restricted scope)	7
New firms	6
Total live firms	189

Planning



The above chart shows a reduction in standards of planning this year compared to previous years, particularly in relation to obtaining an understanding of the entity and risks.

It is vital that firms devote sufficient time and attention to planning the audit. It is no coincidence that audit evidence issues have also increased. This indicates that failure to devote sufficient time and attention to considering the risks and audit approach at planning, can result in ineffective audits where key audit areas are not audited properly.

Here is a short round-up of the key planning areas:

Fraud (ISA 240)

- **Presumed risks:**

The most common issues relate to the presumed risks of revenue recognition and management override of controls, which are often ignored, or inappropriately rebutted, as follows:

- The presumed risk in relation to revenue recognition can be rebutted, but the audit file must clearly record the reason for this.
- The presumed risk of fraud regarding management override of controls cannot be rebutted, and therefore additional testing must be performed to mitigate this risk.

- **Fraud discussions:**

On a number of audits, there was no evidence that the firm had discussed fraud risk with the client or did not go into sufficient detail. Most firms are also aware of the requirement to have a fraud briefing with the engagement team, but often this is not well recorded, or the RI has not been in attendance.

Understanding the entity & responding to risks (ISAs 315 & 330)

Whilst most firms are documenting the knowledge of their client and recording systems notes, it is clear that more attention could be devoted to assessing audit risks, including significant risks, and establishing the appropriate audit approach. It is clear that a number of audits would have benefited from more attention at the planning stage.

Similar to last year, there were issues noted with firms not conducting sufficient work to confirm the design and implementation of key controls. Enquiry, on its own, is not sufficient and more work is needed such as walkthroughs, observation or reperformance. This is not an audit test to obtain audit assurance or rely on the systems, but checks to confirm that the system and cycle is operating as the auditor expects. The timing of such tests are important and if cannot be conducted at the planning stage it should still be early enough in the audit to allow the audit approach to be amended if the controls or systems are found to have changed.

Materiality (ISA 320)

As per last year, the most common issue is the calculation of performance materiality, and the documented justification for the level calculated. Firms are advised to follow their commercial audit programmes and ensure that the justification is recorded.

Fieldwork

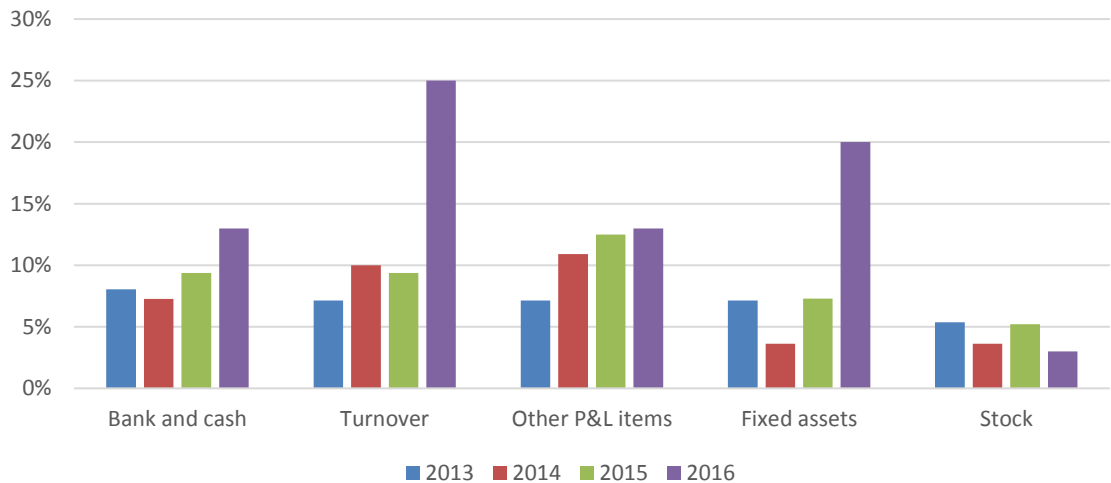
Recording

As in previous years, recording omissions is the most prevalent finding. We encourage all RIs and audit teams to conduct a robust self-review and ask the question that underpins ISA 230: ‘could an experienced auditor reperform this work and draw the same conclusions based on what has been recorded?’

Evidence

Of concern, is the increase in audit evidence issues, i.e. areas we consider where there has been insufficient audit work. This has resulted in some audits receiving a lower file audit quality grading.

Audit evidence issues (expressed as % of firms visited)



By far the biggest area of concern is the lack of effective audit work over turnover. In most cases this is due to firms conducting testing in the wrong direction, or starting from the wrong point.

Testing should commence from the starting point of the sale (e.g. order/despatch), in order to test for understatement.

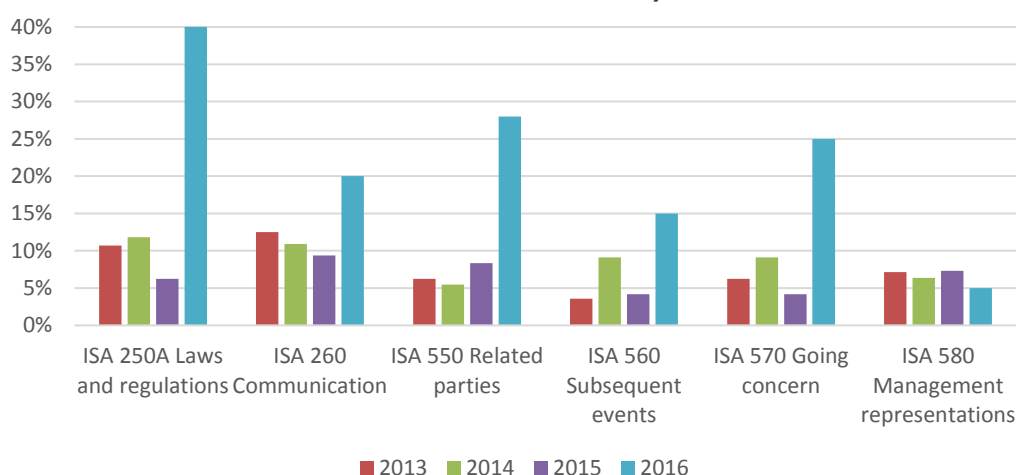
Similar issues were also found in other Profit and Loss account areas, where often the testing is conducted in the wrong direction (for costs the direction should be from the ledgers back to source to test for overstatement).

Additional issues are:

- Bank confirmations are often difficult to obtain, however there is no suitable alternative evidence. As a reminder, Practice Note 16 does allow an exemption where the banking arrangements are very simple – however, this is in very rare circumstances.
- Fixed asset existence is one area that is commonly omitted.
- Whilst not included in the table above, another area that is often raised (13% of files reviewed in 2016; 4% in 2015; 10% in 2014; and 9% in 2013) is the use of substantive analytical review. In order for this review to be robust there are considerations to be addressed by the audit team and a well performed analytical review will follow three key steps:
 - Build an expectation: this should be based on reliable data, and therefore if the firm uses last year's figure then they should justify why they consider this to be reasonable and not have fluctuated in any way.
 - Compare with actual values: this will enable levels of variance and, if material, whether these should be investigated.
 - Corroboration of explanations: once the difference has been quantified, enquiries should be made of management and, whilst firms will then document this on the file, there is often not sufficient detail to provide audit evidence as to the level of independent corroboration of these explanations.

Completion

Completion issues (expressed as % of firms visited)



Completion is generally conducted well across firms but there are four key areas that could still improve and there has been a drop off in standards noted during 2016 in the following areas:

- **Laws and regulations (ISA 250A):** there is often a lack of evidence of the audit work conducted to support the conclusion there are no issues with laws and regulations. Ticking a checklist isn't enough.
- **Related parties (ISA 550):** we typically find that there is no record identifying who the related parties are; a lack of working papers to support the work done to check for completeness; and no consideration of the risk of fraud in relation to related parties.
- **Going concern reviews (ISA 570):** whilst this had generally improved during the recession, issues are creeping back in again. The main findings are a general lack of supporting documentation of audit work done in assessing the director's assessments; and a failure to ensure the directors' assessments cover the right time-period (12 months from the date of the audit report).
- **Two-way communication (ISA 260):** the most common findings is a lack of evidence of two-way communication with those charged with governance at completion.
- **Subsequent events (ISA 560):** key findings include:
 - A failure to perform subsequent events procedures up to the date of signing the audit report;
 - No discussion with those charged with governance on any matters that may impact on the audit report since the completion of fieldwork;
 - A lack of review of information available to the engagement team, including management accounts or any external sources; and
 - A failure to conclude on whether any material or significant post balance sheet events have been identified, and the impact on the audit and the financial statements.

Financial statement disclosures

Whilst the standard of financial statement compliance has been improving in recent years, we have started to see a downturn due, in part, to teething issues with the implementation of FRS 102.

Whilst it is early days, a number of common FRS 102 issues have arisen, in particular around the omission or insufficient disclosure of accounting policies, including:

- no note in the transition note to disclose the change in format of the cashflow statement;
- the turnover accounting policy not being in line with FRS 102 requirements;
- no accounting policy for financial instruments; and
- no accounting policy for cash and cash equivalents.

Other common issues are:

- no/insufficient Key Performance Indicators in the Strategic Report;
- insufficiently detailed income recognition policies;
- insufficient related party disclosures; and
- no accounting policy for provisions for liabilities

In relation to charity audits:

- insufficient analysis of restricted reserves;
- insufficiently detailed income recognition policies; and
- insufficiently detailed resources expended policies.

APPENDIX TWO: OTHER USEFUL LINKS AND CONTACTS

We hope you find this report useful, and if you have any comments or questions please contact us at auditandpracticemonitoring@icas.com

Within ICAS there are a number of contacts which may be useful:

- Technical queries: for auditing, accounting, law or ethics queries please contact accountingandauditing@icas.com
- Money Laundering confidential helpline: if you have any potential money laundering issues, please contact our confidential helpline on +44 (0)131 347 0271.
- The ICAS Practice Support Department provides support to ICAS firms. It offers a variety of services on all aspects of practice, which can be tailored to meet the needs of your firm. The Practice Review Service provides review services, including Audit Compliance Review and Cold File Review services in order to help firm's with their audit compliance. For more information on any of these services, contact +44 (0)131 347 0249 or email practicesupport@icas.com.



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