

AUDIT NEWS

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INTRODUCTION

Welcome to this edition of Audit News, where we have prepared a number of articles which we hope you will find useful.

The first article announces the publication of a revised FRSSE,

which will be effective for accounting periods beginning on or after 1 January 2015.

There are further articles on the new Charities SORP; providing guidance when a partner leaves a firm to join

an audit client; the FRC prohibition on the use of internal audit staff on the external audit team; and a reminder for principals who are not members of ICAS, ICAEW, CAI or ACCA, to apply for Affiliate status from ICAS.

FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES – THE FRSSE 2015

The FRSSE has existed for many years, providing small companies with a simplified one-stop-shop for their accounting requirements.

The Financial Reporting Council (FRC) has published an updated FRSSE effective from January 2015. This updates the FRSSE 2008 for the changes as a result of the introduction of FRS 100; FRS 101; and FRS 102, as outlined in our previous edition of Audit News. The revised FRSSE is effective for accounting periods beginning on or after 1 January 2015, with early adoption permissible.

The eligibility criteria for applying the FRSSE has not changed in the 2015 version and therefore companies that qualify as small under the Companies Act 2006 will be able to adopt it for their financial statements. For clarification, a company qualifies as small if, on its balance sheet date, it meets two out of three of the following conditions in two consecutive financial years:

- Turnover less than £6,500,000;
- Total assets less than £3,260,000; and
- Number of employees less than 50.

A company is ineligible from being a small company if it is a plc, a financial services or insurance company, or part of a group containing any of these or containing a European Economic Area listed company.

In relation to a parent company, in order for it to qualify as a small company, the group which it heads up must qualify as small.

The new accounting framework contains a small number of amendments to the FRSSE and the FRC has now included these in the updated version to maintain its usefulness as a one-stop-shop. As part of the revised reporting framework the FRC will also withdraw extant financial reporting standards and Urgent Issues Task Force (UITF) abstracts. The FRSSE has also been amended, primarily to reflect that FRS 102 is replacing existing SSAPs and FRSs from January 2015. For this reason, references to the old SSAPs and FRSs have been removed from the new FRSSE. As with FRS 102, FRSSE 2015 can be adopted immediately, however we are recommending that firms ensure appropriate training is undertaken beforehand.

What are the main differences to the current FRSSE?

The changes in the revised FRSSE are not dramatic, with key areas of change being in the areas of goodwill, tangible and intangible assets; and related party transactions:

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- If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall not exceed five years. Under the current FRSSE, the life cannot exceed 20 years;
 - Each year an assessment is required as to whether there is any indication that a fixed asset should be written down; and
 - A widening of the definition of Related Parties, using similar wording to FRS 8 (although it remains only those material to the reporting entity which must be disclosed).
- We would advise all firms to ensure their partners and staff undertake appropriate training in advance of application of this standard.

THE NEW CHARITIES SORP

The Charities SORP Committee has published an exposure draft of the new Charities SORP. The consultation was launched in July and public consultation closes on 4 November 2013. The new SORP will be effective for periods commencing on or after 1 January 2015 and will apply to all charities preparing true and fair accounts, whether they are applying the FRSSE or FRS 102.

A microsite has been launched for the SORP, and this can be accessed at: www.charitySORP.org

Where can I find information on the differences between the old SORP and the new draft?

The draft SORP takes an innovative approach, consisting of 29 separate modules: 14 core modules; and 15 specialist modules. Charities and their advisors can customise the SORP on the microsite, through answering a series of questions on the legal form of the charity and its activities. Through

the customisation process certain specialist modules will be added, while others will be excluded.

The SORP Committee has also published two help-sheets, with one mapping the current SORP to material in the new SORP, and the other highlighting key differences. These help-sheets can be accessed at: www.charitySORP.org/about-the-sorp/helpsheets/

Both OSCR and the Charity Commission are hosting a series of consultation events which are publicised on the microsite events page, however the Charities SORP Committee is also keen on receiving comments in writing, and these can be submitted directly to the Committee at: SORP.TheFuture@charitycommission.gsi.gov.uk or, if you would like to contribute to the ICAS response, please submit your comments to: accountingandauditing@icas.org.uk no later than Monday 14 October 2013.

ETHICAL CONSIDERATIONS – PARTNER LEAVING TO JOIN AN AUDIT CLIENT

The Auditing Practices Board's 'Ethical Standards for Auditors' were first introduced in late 2004.

As it says on the tin, these standards are targeted at audit firms and their partners and employees. However, their impact also stretches to the business community in a number of areas. We will now focus on one such area, being the considerations when a former partner in an audit firm is considering taking on a role as a non-executive director in a company which is an audit client of his former firm.

In these circumstances, there is clearly an attraction from the perspective of the client, particularly if the individual is a former audit partner, known to the client, and would, therefore, seem an attractive candidate for serving on a company's audit committee. However, there are threats to the audit firm's independence in this situation, and these are dealt with in paragraph 49 of Ethical Standard 2.

Ethical Standard 2, paragraph 49:

'Where a partner leaves the firm and is appointed as a director (including as a non-executive director) or to a key management position with an audited entity, having acted as audit engagement partner (or as an engagement quality control reviewer, key partner involved in the audit or a partner in the chain of command) at any time in the two years prior to this appointment, the firm shall resign as auditor. The firm shall not accept re-appointment as auditor until a two-year period, commencing when the former partner ceased to have an ability to influence the conduct and outcome of the audit, has elapsed or the former partner ceases employment with the former audited entity, whichever is the sooner.'

UK legislation further provides that each of the Recognised Supervisory Bodies, of which ICAS is one, must have adequate rules and practices to ensure that a key audit partner, defined as

'the individual responsible for the statutory audit and individuals responsible for a parent undertaking or a material subsidiary undertaking' appointed by a public interest entity, is prohibited from being appointed as a director or other officer of the entity during a period of two years commencing on the date on which his or her work as key audit partner ended.

It should be noted that 'chain of command' is defined in the APB's Ethical Standards for Auditors as follows: 'All persons who have a direct supervisory, management or other oversight responsibility over either any audit partner of the audit team or over the conduct of audit work in the audit firm. This includes all partners, principals and shareholders who may prepare, review or directly influence the performance appraisal of any audit partner of the audit team as a result of that partner's involvement with the audit engagement. It does not include any non-executive individuals on a supervisory or equivalent board.'

Therefore, audit firms need to have policies in place to mitigate

the risk that a former partner might inadvertently breach the rules. It is also interesting to note that the two year period starts when the former partner ceased to have any influence on the conduct and outcome of the audit. Depending on the partner's role, this starting point might be:

- The date at which they left the audit firm; or
- The date of the last audit report which they signed for the client; or
- A later date if, for example, the partner was involved in the planning of the audit for a subsequent year.

Audit firms and their clients need to be aware of these rules and ensure that they have procedures in place which mitigate the risk that such rules will be broken inadvertently.

Should you wish to contact ICAS for advice on any independence or ethical matters, please do so using the following email address: accountingandauditing@icas.org.uk

FRC PROHIBITS THE USE OF INTERNAL AUDIT STAFF ON THE EXTERNAL AUDIT TEAM

Helpsheets for the audit of specialist and regulated entities

In June the FRC published revised versions of ISA 315 'Identifying and Assessing the Risks of Material Misstatement through understanding the entity and its environment' and ISA 610 'Using the work of internal auditors.'

The revisions were made to introduce a measure that creates a clearer division of responsibility between internal and external audit teams to safeguard against conflicts of interest.

By prohibiting auditors from using internal audit staff as 'direct assistance' members of the external audit team, the FRC is seeking further to ensure the independence of the external auditor and promote greater confidence in the integrity of the audit for investors.

The prohibition comes into effect for audits of financial statements for periods ending on or after 15 June 2014, and the revised ISAs can be viewed at: www.frc.org.uk



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THE AUDIT OF REGULATED AND SPECIALIST CLIENTS – ICAS HELPSHEETS NOW PUBLISHED

When we issued our Audit Monitoring Annual Report 2012 at the start of this year we noted that many of the audit files in 2012 that were identified as being of poorer quality were of a specialist or regulated nature. These types of audit clients include charities, pension schemes, FSA regulated entities, Registered Social Landlords, Industrial & Provident societies, and credit unions.

In our last edition of Audit News we stated that there are many reasons for a variance in audit quality, and we strongly advise firms to ensure that Responsible Individuals who have responsibility over such clients are undertaking regular training in the relevant area; that audit procedures reflect the specialist aspects of the assignment; and that sufficient time is devoted to these audits, which can often be perceived to be of a 'smaller' nature.

Helpsheets for the audit of specialist and regulated entities

As promised in our last edition of Audit News, we have now issued a number of helpsheets on the audit of specialist and regulated entities.

These helpsheets cover the audit of charities registered with OSCR and The Charity Commission in England and Wales; pension schemes; Registered Social Landlords; and Credit Unions.

These helpsheets are now available to ICAS members on the ICAS website, at icas.org.uk/regulation/news/helpsheets/

REMINDER – AFFILIATE STATUS

In recent months we have received a number of questions on the requirements for a firm where a principal of is not a member of one of the Institutes of Chartered Accountants of Scotland, England & Wales or Ireland, or the Association of Chartered Certified Accountants (ACCA).

Audit Affiliate status

In order to provide clarification:

Where a principal of an audit registered firm is not a member of ICAS; ICAEW; CAI; or ACCA, then that individual is required to apply for Affiliate status from ICAS.

This was previously referred to as 'Regulated Non-Member' status, however has recently been changed to 'Affiliate', in accordance with new ICAS Rules issued in 2012.

To be eligible to become an Affiliate for audit purposes a non-member must:

- Be a fit and proper person;
- Agree to comply with the Audit Regulations and be bound by the ICAS Charter, Rules and Regulations;
- Agree to observe and uphold the ICAS Code of Ethics; and
- Agree to provide ICAS with all the information it requires.

The change of terminology from 'Regulated Non-Member' to 'Affiliate' has not changed the status of an individual within the ICAS Rules, but is merely a change in the terminology to ensure consistency among all regulatory bodies. If an

individual was previously a Regulated Non-Member, they will have been asked to provide an undertaking to ICAS in respect of the new status as an Affiliate.

As a reminder, Affiliate status, once approved, does not confer membership of ICAS or entitle the individual to use the term 'Chartered Accountant' however an Affiliate is bound by the same Rules and Regulations that govern a full member of ICAS. Likewise, it does not confer Responsible Individual status, which must be applied for, and therefore does not allow audit reports to be signed.

It is expected that an Affiliate will:

- Conduct him or herself with integrity, objectivity and in accordance with the high ethical standards of ICAS;
- Act in the public interest, and abide by the Rules and Regulation of ICAS;
- Give due consideration to the guidance and recommended good practice issued by ICAS where relevant and perform faithfully and promptly any service that they are retained or employed to undertake in their professional capacity; and
- Provide promptly and willingly all such information and assistance as they are able, if asked to do so by ICAS in pursuance of its duties.

Further information and guidance on Affiliate status can be found on the ICAS website at: icas.org.uk/home/regulation-and-ethics/audit-regulation/audit-registration/

REMINDER – MANDATORY COURSE FOR AUDIT COMPLIANCE PARTNERS

Keeping Your Audit Firm and Files on the Right Track

These courses, whether face to face or via webinar, are mandatory for Audit Compliance Partners, however to ensure mandatory attendance is not too onerous, you are required to attend only once every five years, and the face-to-face courses are still heavily discounted for those requiring mandatory attendance. Courses are developed and delivered by the ICAS Audit Monitoring team and dates for 2014 will be advised in our next edition of Audit News.

Remaining 2013 courses

There are still places available on our next course, which will be delivered in Glasgow on 30 October 2013, and on the next series of webinars, which will be held on 6 November 2013.

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

If you would like to see any particular articles in future editions of Audit News or any particular auditing areas covered in future monitoring helpsheets please send your ideas to: auditandpracticemonitoring@icas.org.uk