

AUDITNEWS

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INTRODUCTION

Welcome to the summer edition of Audit News, which we hope you find useful. In this edition we have included articles on the recent publication of the Financial Reporting Council Inspections Annual Report; the issue of a revised International Education Standard 8;

guidance when firms are requested to submit hot or cold file reviews to the Audit Registration Committee; updates regarding local audit in England and Wales, the regulatory approach to ATOL; and consideration of the expected increase in audit thresholds.

We would also like to take the opportunity to provide a reminder on our mandatory courses for Audit Compliance Partners (ACPs): ‘Keeping Your Audit Firm on the Right Track’ and ‘Keeping Your Audit Files on the Right Track’.

2015 is the final year of the first five year cycle of the mandatory course for ACPs. If you have not yet attended the course, and have been an ACP since the course inception in 2010, you are required to attend before the end of 2015.

The courses are developed and delivered by the ICAS Audit Monitoring team, and the strong feedback received has shown that senior audit team members have also benefited greatly from attendance.

The next course will be held in Glasgow on 30 September 2015. Should you have any questions in this regard please do not hesitate to get in touch with ICAS AM at: auditandpracticemonitoring@icas.com

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FRC PUBLISHES ITS AUDIT QUALITY INSPECTIONS ANNUAL REPORT 2014/15

- The FRC published its annual report on the inspection of audit quality in the largest UK firms;
- Audit quality is improving, but there is significant room for further improvement;
- Common issues noted around scepticism; identification of independence threats; and procedures in relation to revenue recognition.

On 29 May 2015 the FRC published its annual report, providing an overview of its Audit Quality Review (AQR) activities for the year ended 31 March 2015. The report can be accessed at: frc.org.uk/Our-Work/Conduct/Audit-Quality-Review.aspx

The report indicates that audit quality in the UK is improving, albeit there is room for further improvements. The FRC has noted that 67% of audits inspected were assessed as either 'good' or 'only requiring limited improvements', compared to 60% in the previous year. The inspections identified that

common issues arose with regards to:

- (i) a lack of scepticism, principally in relation to impairment testing and investment property valuations;
- (ii) insufficient procedures in the identification of potential independence threats; and
- (iii) insufficient procedures in relation to revenue recognition.

Where the deficiencies are significant, firms are being required to undertake remedial action. In five cases, firms were referred to the FRC's monitoring committee for poor quality audit work, ethical matters or non-compliance with the UK audit regulations. One, which involved misconduct, has now been referred to the disciplinary process.

Finally, partially as a response to the high profile issues in 2015, the FRC has stated that its 2015-16 activities will include a focus on the audits of complex supplier arrangements, including food, drinks and consumer goods manufacturers and retailers.

IAESB ISSUES THE REVISED IES 8 'PROFESSIONAL COMPETENCE FOR ENGAGEMENT PARTNERS RESPONSIBLE FOR AUDITS OF FINANCIAL STATEMENTS'

IAESB has issued a revised IES 8, which is effective from July 2016, and which provides a list of competencies which audit engagement partners are required to fulfil.

International Education Standard 8 (IES 8) 'Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)'. The revised IES 8 has an implementation date of July 2016, and can be accessed at: ifac.org/publications-resources/ies-8-professional-competence-engagement-partners-responsible-audits-financ-0

The existing IES 8 applies to all those who were considered to be 'audit professionals', being qualified accountants who exercise significant judgements on the audit, whereas the revised IES 8 focuses on the professional competence

requirements for audit engagement partners .

The revised standard is prescriptive in outlining the learning outcomes expected for this role and sets out the learning outcomes to be achieved, covering the areas of technical competence, professional skills, professional values, ethics, and attitudes. IES 8 further acknowledges that as the career of an engagement partner progresses practical experience also becomes increasingly important in maintaining and further developing the necessary depth and breadth of professional competence.

ICAS is currently looking into how the standard might be implemented to minimise the impact on engagement partners. We will include articles in future editions of Audit News on how compliance with this standard will be assessed during monitoring visits.

SUBMISSIONS TO THE AUDIT REGISTRATION COMMITTEE

In the last edition of Audit News, and in our Annual Monitoring report, we highlighted that 46% of our firms required to make submissions to the Audit Registration Committee ('the Committee').

Generally, firms comply with the request and the information provided allows matters to be closed promptly. In recent months however, there has been a varying standard of information coming through for the Committee's attention.

In particular, the documentation provided to support the external hot and cold file reviews in some cases has been hard to follow, which has resulted in requests for additional submissions, or a delay in clearing the visit.

If your firm is required to submit a hot or cold file review to the Committee, we would like to remind you of some golden rules to help the Committee come to a decision:

- Choose your reviewer wisely – the ICAS Practice Review Service and training consortia and other organisations are experienced in conducting these reviews on a regular basis. If you choose to use another firm, always ensure they are unconnected to your firm and consider whether the Reviewer is a Responsible Individual. If the Reviewer is not a Responsible Individual, you need to consider whether their expertise and experience makes them a suitable reviewer.
- Follow the instructions – the Committee will provide you with details on the files to be reviewed and when the reviews should be submitted. If you can't comply with this, get in touch with the Secretariat to the Committee promptly.

- Provide a copy of the instructions to your reviewer – the Committee sets out what the submission should include so it's important the reviewer knows what is expected of them. Rather than just providing completed checklists, the Committee is looking for confirmation that a full file review has been performed and an overall conclusion. The reviewer should also comment on how the firm has dealt with the matters raised at the monitoring visit.
- Double check the submissions before sending – go back to the original letter which the Committee sent and ensure that all submissions comply with the conditions set out there. In particular:
 - Are there details of all queries raised and how these have been addressed?
 - Has a letter from the reviewer been included giving their conclusion?
 - Is there a covering letter describing the contents and confirming what, if any, additional actions are to be taken?

If you have any concerns or questions about submitting information to the Committee, please contact Emma Reid, a member of the Committee Secretariat team, on 0131 347 0282 or ereid@icas.com

If you are interested in discussing how the ICAS Practice Review Service can help your firm please contact Linda Laurie on 0131 347 0249, or email: practicesupport@icas.com

UPDATE – LOCAL AUDIT IN ENGLAND AND WALES, AND THE ROLE OF ICAS

In our previous edition of Audit News we provided notification of our intention to apply to the FRC to become a Recognised Supervisory Body (RSB) for firms conducting Local Audit work of relevant public authorities in England and Wales, following the disbandment of the Audit Commission.

We would like to ensure that we have an appropriate regulatory framework in place to ensure that our audit firms can be licensed with us and supported by us for both private company audit work and this new area of

public sector audit work going forward.

Our application has now been submitted to the FRC, and we will include articles in future editions of Audit News to communicate progress.

Should you have any questions in this regard please do not hesitate to get in touch with Lesley Byrne, Director, Regulatory Authorisations & Monitoring at: regulatoryauthorisations@icas.com or 0131 347 0245.

REGULATORY APPROACH TO THE ATOL SCHEME

The Civil Aviation Authority (CAA) issued a consultation in June 2014 on proposals planned to rebalance the regulatory approach to the Air Travel Organisers' Licensing (ATOL) scheme. Following the consultation process, the CAA published a decision in March 2015:

- The Small Business ATOL (SBA) scheme will be retained in a modified form;
- ATOL holders with licensable revenue of between £1m and £5m will be subject to a new and more sophisticated financial test;
- Revised accountant reporting arrangements will be introduced; and
- Online facilities will be developed to enable ATOL holders and their reporting accountants to submit licence applications and financial reports online.

The reason for the review was to extend the risk-based regulatory approach in order to reduce the likelihood of consumers being affected by insolvency and provide further protection against calls on the Air Travel Trust (ATT).

What does it mean for ICAS Firms?

All ATOL Reporting Accountants should be registered with a regulatory body by 1 October 2015. From 1 October 2015 to 31

March 2016, they should undertake or confirm suitable training and competence to ensure that they can be designated by 1 April 2016.

ICAS are now in the process of applying to be a regulatory body for in order to support our Members and firms in conducting this work, and is currently developing a regulatory scheme for such firms.

A key aspect of the scheme will be targeted, industry specific training and ensuring that ATOL Reporting Accountants are competent to perform the work.

What happens now?

ICAS recently issued a survey to firms to establish who may be interested in carrying out this work and what training would be useful. You can access the survey at: [surveymonkey.com/s/9Q8CY5X](https://www.surveymonkey.com/s/9Q8CY5X)

Should you have any questions, or if you would like to register, please contact ICAS at: regulatoryauthorisations@icas.com

Updates will be provided at ICAS.com: icas.com/regulation/atol-reporting-accountants-scheme

INCREASE IN AUDIT THRESHOLDS EXPECTED

It looks increasingly likely that the UK audit exemption thresholds will increase in line with the small company reporting thresholds, as a result of the UK implementation of the 2013 EU Accounting Directive. Although the results of the consultation into the implementation of the EU audit reforms have still to be finalised, the preferred UK government option

is that the financial reporting and auditing thresholds should be the aligned.

Following a consultation last year, the new financial reporting thresholds will come into force in the UK for financial years beginning on or after 1 January 2016.

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.com

