

AUDIT NEWS

INTRODUCTION

Welcome to the winter edition of Audit News, which we hope you find useful. In this edition we have included articles on the significant changes to the mandatory ICAS audit quality course; the excellent news that the Financial Reporting Council (FRC) has awarded ICAS Recognised Supervisory Body (RSB) status for local audit in England; the news that firms with ATOL Reporting Accountant engagements should apply to ICAS for registration and designation by

31 January 2016; an important notice from the Committee regarding inactive RIs and audit firms; implementing the new International Education Standard 8; the key points of the FRC's consultation on revised guidance reporting risks and going concern; the new FRC Standard for audit firms on Providing Assurance on Client Assets to the Financial Conduct Authority (FCA) and an update on the implementation of the 2014 EU Audit legislation in the UK.

ICAS Audit Quality Course – all ACPs and RIs will be required to attend during the 2nd cycle

BACKGROUND

By the end of this year we will have completed the first five year cycle of the courses 'Keeping Your Audit Firm on the Right Track' and 'Keeping Your Audit Files on the Right Track'. The courses have run from 2010 to 2015, with the requirement that every Audit Compliance Principal (ACP) has been required to attend at least once in the first five year cycle.

In 2016, we intend to consolidate our training into one single course, lasting three hours, which will again be presented across varied locations each year.

Due to the Financial Reporting Council (FRC) focus on audit quality, the Audit Registration Committee (ARC) has recently decided that significant changes to the mandatory

requirement would be beneficial in increasing audit quality among ICAS audit registered firms. The resulting requirements are that:

- Each ACP will be required to attend at least once in the three year period from 2016 to 2019 (previously once in the first five year cycle); and
- Each Responsible Individual (RI) will be required to attend at least once in the five year period from 2016 to 2021 (no previous requirement).

We acknowledge that firms with a large number of RIs may wish to explore with ICAS the best way of delivering training across the firm to minimise disruption and cost to their firm, and we would ask those firms to get in touch with ICAS at: auditandpracticemonitoring@icas.com if you would like to explore this with us.

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ICAS AWARDED RSB STATUS FOR LOCAL PUBLIC AUDIT IN ENGLAND

- Local bodies in England will now be able to appoint their own auditors.
- All audit firms conducting local audit work in England will now require to be registered with ICAS or another RSB.
- ICAS has been granted RSB status for local audit by the FRC.
- Local Audit registered firms will require to comply with our Local Audit Regulations.

All current audit registered firms intending to do this work must apply to become a Local Audit firm – their current audit registration does not cover this work.

ICAS has been granted Recognised Supervisory Body (RSB) status for Local Audit by the FRC, and is now accepting applications from firms intending to undertake audits for public bodies in England,

The Local Audit and Accountability Act 2014 disbanded the Audit Commission and established a new framework for the appointment and regulation of auditors for local public bodies in England.

As a result local bodies, such as local council and health service bodies, will now be able to appoint their own auditors (although many will use the central tendering body) and appointed audit firms will now need to be Local Audit registered with an RSB.

ICAS has developed Local Audit Regulations, which all audit firms and individuals wishing to be registered with ICAS to conduct Local Audit work will be required to adhere to, and with the overriding objective of ensuring a consistent and high standard of Local Audit work. These regulations refer to the National Audit Office Code of Practice for Local Audit and

ensure that firms registered to conduct Local Audit work are applying this code.

There is a great deal of additional information, including guidance on the application process, on the ICAS website. Search 'Local Audit' at icas.com for more information.

Additionally, ICAS has recently announced that it is working with the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a ground-breaking new joint audit qualification which will provide a dual designation of CA and CPFA as well as the dual audit qualification for both public and corporate sector audit. Granting RSB status to ICAS allows CIPFA and ICAS to provide the full range of services from enabling the training and education of Local Auditors to the designation and regulation for local audit work.

Should any firm wish to discuss this, or have any other questions in this regard, please do not hesitate to get in touch with regulatoryauthorisations@icas.com or phone on 0131 347 0245.

FIRMS WITH ATOL REPORTING ACCOUNTANT ENGAGEMENTS TO APPLY TO ICAS BY 31 JANUARY 2016

The Civil Aviation Authority ('the CAA') has now approved ICAS as an Approved Professional Body for the ATOL Reporting Accountants Scheme, which forms part of CAA's review of ATOL regulation.

From 1 April 2016 onwards only registered and designated ARAs working in registered firms will be able to sign ATOL Accountants Reports. This scheme is separate from being a Registered Auditor and our audit firms will still require

to license their firm for any ATOL ARA work and apply to designate and register each principal or staff member who will be signing ATOL Accountants Reports as an ARA.

ICAS is now taking applications to register firms and their ARAs. For more information on the scheme and how to apply, please search on 'ATOL' at icas.com; email regulatoryauthorisations@icas.com or phone 0131 347 0286.

INACTIVE RESPONSIBLE INDIVIDUALS: IMPORTANT NOTICE FROM THE COMMITTEE

Effective from 1 January 2016, the Audit Registration Committee will monitor how inactive RIs keep their audit competence up to date and the safeguards put in place for when RIs become active again. The FAQs below explain this new policy.

FAQs

What is an inactive RI?

An individual in your firm who is retaining their RI status but who currently has no audit clients.

This means an individual who has disengaged from all audit clients and is not meant to cover situations where there is a temporary lull between audits.

If you are unsure whether any of your RI are inactive please contact Audit & Practice Monitoring by email at auditandpracticemonitoring@icas.com or by phone 0131 347 0284.

Why is the Committee looking at this area now?

The increase in the audit exemption thresholds has resulted in an increase in firms with RIs who currently have no audit clients

Why are inactive RIs being monitored?

Inactive RIs run the risk of becoming out of date when they go for periods without any involvement in audit work or with audit clients. Whilst there is no actual risk whilst inactive, the risk arises when an inactive RI becomes active and takes on audit clients again.

How are inactive RIs identified?

- We have identified a number of inactive RIs on Audit Monitoring visits in recent years. We will write to all identified inactive RIs, and the Audit Compliance Principal in their firms, to notify them of the change in policy'
- Going forward, we will also add questions to our Firms Annual Return to identify (a) when an RI becomes inactive and (b) when they become active again.

What are we expected to do when an RI become inactive?

- Notify ICAS in writing when the RI becomes inactive and indicate how the RI intends to keep audit competence up to date.
- Ensure that this is included on your Firms Annual Return.

What will ICAS do whilst the RI is inactive?

ICAS may contact the RI and the firm to request CPD

records in order to evidence how the RI is keeping audit competence up to date.

What are we expected to do when an RI become active again?

- Email auditandpracticemonitoring@icas.com when the RI is about to take on responsibility for audit clients, and inform the Committee of the safeguards being put in place and of the audit clients the RI is intending to take responsibility for.
- Also notify ICAS on the next Firms Annual Return.
- The RI should attend our mandatory audit course, within the first 12 months of becoming active.

What will the Committee do?

The Committee will assess the risk associated with the RI becoming active and will consider the range of safeguards proposed by the firm. For example, if the RI were still active in audit work within the firm (eg involved in a technical audit role, involved in cold file reviews or involved on audits at a senior level but not as engagement lead) and was supported by other RIs in the firm then the Committee would consider that there is less risk than a sole RI in a firm who has not been involved in audits for years. If the Committee has concerns, it will propose conditions or restrictions, or require that certain actions are taken, if considered necessary to manage any risks.

What kinds of safeguards can firms introduce?

When an RI becomes active after a period of inactivity the firm may wish to consider appropriate safeguards. Examples of safeguards include:

- A period of mentoring by another active RI;
- Hot or cold file reviews (external if a small firm or sole RI)
- Appropriate training courses and CPD.

The nature of the safeguards will depend on a number of factors including: whether the RI has continued to be involved in audit work, the size of the firm; the internal support available.

Who should we contact?

Please contact auditandpracticemonitoring@icas.com

We will write to any affected firms that we have already identified in due course. However, if we have not identified your firm as being affected and it is, please contact us with details of your inactive RIs in order to keep our monitoring up to date.

HOW ICAS WILL MONITOR COMPLIANCE WITH THE REVISED INTERNATIONAL EDUCATION STANDARD 8 (IES 8)

- The revised IES 8 was issued in December 2015 and has an implementation date of 1 July 2016;
- The revised standard focusses on audit engagement partners rather than all 'audit professionals';
- The standard is more prescriptive in outlining the learning outcomes expected for the role of audit partner.
- ICAS will monitor audit firms compliance with the new standard as part of the audit monitoring visit process.

In Audit News Issue 55 (June 2015), we highlighted the revised International Education Standard 8 (IES 8) 'Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)'. In a key change from the existing standard, the revised ES 8 focuses on the professional competence requirements for audit engagement partners, rather than all those who were considered to be 'audit professionals' (being qualified accountants who exercise significant judgements on the audit),

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.

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; and professional values, ethics, and attitudes. The key learning outcomes as defined in the standard, and how these will be addressed as part of an ICAS audit monitoring visit, are set out below:

Technical competence

This learning outcome covers competencies including:

- Audit and financial accounting and reporting;
- Governance and risk management;
- Business environment;
- Taxation;
- Information technology;
- Business laws and regulations;
- Finance and financial management.

In line with the current standard, we would expect firms to

undertake CPD to maintain their audit and financial reporting knowledge and meet these outcomes, therefore this will continue to be covered by the CPD review. The remaining competencies cover specific areas of the audit file, and therefore we will be able to assess an RIs compliance with the remaining learning outcomes in these areas during our monitoring reviews.

Professional skills

This learning outcome includes the following skills:

- Intellectual;
- Interpersonal and communication;
- Personal; and
- Organisational.

By their very nature, these skills are more subjective and harder to evidence during a monitoring visit. In order to assess compliance, firms will be encouraged to adopt a competency based appraisal process to consider whether these objectives are being met. However, appraisals are not mandatory and will be difficult to complete for sole practitioners and firms with only one RI, therefore we will encourage firms to tie this into the annual compliance review process.

Professional Values, Ethics and Attitudes

This outcome includes the following competence areas:

- Commitment to the public interest;
- Professional scepticism and judgement; and
- Application of ethical principles.

These are already assessed in some detail during audit monitoring visits, and Ethics is considered in assessing the whole firm compliance with the Ethical Standards, whether the Ethics Partner is appropriately fulfilling their role. Secondly, we assess ethical compliance at an audit engagement file level for each RI to ascertain whether they have appropriately identified ethical issues and properly safeguarded these.

Our RI application process has been revised to accommodate these changes and applicants will be expected to evidence how they consider they have met the learning outcomes as part of the application process.

The revised IES 8 has an implementation date of July 2016, and can be accessed at: ifac.org

FRC PROPOSES NEW GUIDANCE TO ENHANCE REPORTING ON RISKS AND THE GOING CONCERN BASIS OF ACCOUNTING

- The FRC has issued for consultation, draft guidance on the assessment of and reporting on the going concern basis of accounting;
- The draft guidance is for companies who do not apply the UK Corporate Governance Code. but will be considered non-mandatory or best practice for those companies;
- The guidance is intended to assist directors in applying the relevant requirements in accounting standards and company law, incorporating recent regulatory developments such as the introduction of new UK and Ireland GAAP and the Strategic Report.

The Financial Reporting Council (FRC) has issued for consultation, draft guidance on the assessment of and reporting on the going concern basis of accounting and solvency and liquidity risks, for companies who do not apply the UK Corporate Governance Code. This draft guidance will be considered best practice for those companies.

The draft guidance is intended to serve as a practical guide for directors. It includes:

- factors to consider when determining whether the going concern basis of accounting is appropriate and making assessments of solvency risk and liquidity risk relevant to a company's future viability;

- guidance on the assessment periods for the going concern basis of accounting and risks; and
- a summary of the reporting requirements.

The guidance is intended to assist directors in applying the relevant requirements in accounting standards and company law, incorporating recent regulatory developments such as the introduction of new UK and Ireland GAAP and the Strategic Report. In the view of the FRC, this should enhance the quality and depth of information investors receive about the business over the longer-term.

The guidance is not directed at small and micro companies as these are not required to prepare a Strategic Report, however, they may find it useful when assessing the use of the going concern basis of accounting and, in respect of small companies, when considering if any additional disclosures are necessary for the financial statements to give a true and fair view. Although directed primarily at companies, the guidance may also be useful in preparing the annual report of other entities.

Comments and feedback on the FRC's discussion paper are invited by 15 January 2016. A copy of the consultation can be found at frc.org.uk

FRC STANDARD FOR AUDIT FIRMS ON *PROVIDING ASSURANCE ON CLIENT ASSETS TO THE FINANCIAL CONDUCT AUTHORITY (FCA)*

As expected in the last issue of Audit News the FRC has now issued a standard for audit firms on providing assurance on client assets to the FCA. The Assurance Standard covers the work auditors do when reporting to the FCA on the compliance by financial services firms, with the FCA's Client Asset (CASS) rules. These provide for the effective safekeeping of client assets and client monies. More than 1,500 firms hold more than £100 billion of client assets and £11 trillion of other custody assets.

The development of the Standard, which will apply to periods starting on or after 1 January 2016, has been supported by the FCA.

The standard can be viewed at:
frc.org.uk

The standard, and the feedback statement, can be viewed at:
frc.org.uk

UPDATE ON EU AUDIT LEGISLATION

Since the publication of the last issue of Audit News, the FRC and BIS have published their respective consultation papers. The FCA and PRA had already published their respective consultation papers in this area which focus on changes to the composition requirements of an audit committee and on the entities required to have one.

In October 2015, BIS issued its consultation paper on matters related to the implementation of the EU Audit legislation in the UK. The main points in this consultation are detailed below:

- The UK Government does not intend to include additional entities in the definition of a Public Interest Entity (PIE). This means that PIEs will only be those entities with securities admitted to trading on a regulated market, banks, building societies, and insurers. Companies traded on AIM will not be PIEs.
- All PIEs will be required to put their audit out to tender at least every 10 years and change their auditor at least every 20 years. BIS also sets out transitional arrangements for PIEs who first appointed their current auditor in the 13 years up to the application date for the Regulation.
- BIS sets out the underpinning legislation needed for the Financial Reporting Council (FRC) to introduce changes in technical and ethical standards for auditors as part of the implementation of the new Directive and Regulation.
- The earlier BIS Discussion Document proposed the

FRC should be the competent authority under the new framework. Following consideration of the responses the Government announced in July that the FRC would be designated as the competent authority, and set out how the FRC would delegate tasks to the Recognised Supervisory Bodies (RSBs). This will mean the FRC will only have to conduct audit inspections, investigations and disciplinary cases in relation to PIEs, and oversee the work of the RSBs for other audits. However it would still be open to an RSB to agree the FRC would undertake work that would otherwise have been delegated. As now, the FRC would also have the ability to take over any particular inspection or investigation, if it deemed it to be in the public interest.

The BIS Consultation can be downloaded at:
gov.uk/government/consultations/eu-audit-directive-and-regulation-implementing-the-requirements

In September 2015, the Financial Reporting Council (FRC) published its consultation paper on proposed changes to its auditing and ethical standards to take account of the requirements of the EU Audit Regulation and Directive, both of which apply for accounting periods commencing on or after 17 June 2016.

ICAS technical have prepared two articles on the proposed changes which can be found on ICAS.com:

icas.com/technical-resources/final-piece-of-the-jigsaw

icas.com/technical-resources/ethical-standards-for-auditors-the-frcs-key-proposed-changes

