



Introduction

This *Audit News* is almost exclusively about the revised *Audit Regulations and Guidance*. The delay in sending you the revised regulations is because we were engaged in lengthy discussions with the Professional Oversight Board about new regulation 3.09. This concerns changes of audit appointment and allows the new auditor to review the audit file of his predecessor. This is an important change and, rather than send you the printed regulations with one regulation missing, we decided to wait until we could send you a complete copy.

The revisions are mainly caused by the Companies Act 2006 but we have taken the opportunity to make other amendments to the regulations and guidance. The good news is there are now fewer pages; the bad news is that you need to be familiar with all of them!

You can download further copies (or an order form if you want to purchase more printed copies) from www.icaew.com/auditnews, where you can see schedules of destinations and derivations.

The revised *Audit Regulations and Guidance* commence on 6 April 2008, when the relevant sections of the Companies Act come into force. However, some of the new regulations (including 3.09) apply to financial years starting on or after 6 April. The following articles highlight these.

The new regulations do not apply in the Republic of Ireland at the moment. This is because of the different timetables in the UK and RoI for transposing the EU's audit directive, which is the source of many of the new requirements in the Companies Act and hence changes to the regulations. There is an article about this.

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Summary of major changes

The following list highlights a number of important changes. You are still advised to read the rest of this *Audit News* and the regulations themselves.

- The regulations now allow auditors from the EEA countries (ie, EU countries + Iceland, Liechtenstein, Norway and, under the Companies Act 2006, Gibraltar) to become owners of UK audit firms. However, to be in charge of a UK audit (ie, to be a responsible individual) a UK audit qualification is required, or an overseas qualification (including an EU qualification) with an adaptation test.
- There are additional requirements in terms of the information that registered auditors have to supply so that we can update the Joint Audit Register which, in future, will be web-based and consequently more accessible to the public.
- There are new requirements for:
 - signing audit reports;
 - allowing a ‘successor’ auditor access to your audit working papers on a change of audit; and
 - working papers in group audit situations.
- The concept of ‘qualified individual’ (formerly in chapter 4) has been deleted.
- A responsible individual cannot join certain clients until a two-year ‘quarantine’ period had passed.
- The individual parts of chapter 5 have been amalgamated into a single section covering all three Institutes.
- Chapter 6 on corporate practices has been deleted and any continuing material has been transferred to other chapters.
- There is provision for ICAS and ICAI to use regulatory penalties.
- Guidance chapter 2 on maintaining competence has been deleted, as extensive guidance material on CPD is provided by the Institute.

In addition, there are changes to the statements required when an audit appointment ceases. Although not the subject of a specific regulation, there is some information about this.

Changes by chapter

Chapter 1 – General

The transitional arrangements have been amended (but see separate article on implementation of the revised regulations), and all the regulations about how ‘notices’ are delivered to firms are now in one place.

Definitions

We have tried to make definitions future-proof by referring to committees in terms of their functions rather than by name. Some new definitions are added.

A new category of audit, ‘partnerships’, has been added to the definition of audit and is subject to the regulations. These are somewhat odd partnerships that require an audit. Each partner has to be a company or a Scottish partnership and, in the latter case, each partner in the partnership is a limited company. Other than this change, the only change to the definition of audit is to amend references to the new Companies Act.

The definition of audit compliance principal has been amended to allow this individual to be a principal **or** a member of a management board (for which a new definition is also included). The individual still has to be a responsible individual but the new definition of audit compliance principal should allow firms additional flexibility.

New definitions are added for EEA auditor, EEA audit firm and EEA member state. These flow from the EU’s audit directive and allow individuals and firms from EEA states (ie, EU member states, Iceland, Liechtenstein, Norway and, under the Companies Act 2006, Gibraltar) to be part of the control arrangements of a registered auditor.

Chapter 2 – Eligibility, application for registration, continuing obligations and cessation of regulation

This chapter is renamed as it now includes all matters relating to eligibility for registration, the application process, continuing obligations and the cessation of registered status. Consequently, we have moved into this chapter material from other chapters

and consolidated it here. For example, the regulations about dispensation from chapter 8 are now regulations 2.17-2.20. Regulations about how registration can cease, and the resulting effects (formerly in chapter 8), are now regulations 2.21-2.24.

The eligibility requirements now include corporate practices (as chapter 6 on corporate practices has been deleted). Other changes to the eligibility requirements are described in the boxed article.

Eligibility requirements for audit firms

The range of persons who can count towards the majority control of an audit firm has increased. Previously, majority control had to be in the hands of the individuals with a UK/Rol audit qualification or UK/Rol registered audit firms. Now, individuals with an audit qualification from any EEA state, or firms registered for audit in any EEA state, can count towards the control percentage.

The individuals who are in charge of a particular audit still need to have a UK/Rol audit qualification as appropriate. Chapter 4 sets out who this group of individuals can be (and diagrammatically in the schedule at the end of the chapter).

These changes flow from the EU's audit directive and open up the prospect of a pan-European firm. A firm could consist of 27 principals, one from each EU state. The firm could then be registered in each state, but the audit work could only be undertaken by the principal who is audit qualified in that state.

The information that will be displayed in future on the Joint Audit Register (which will be web-based) will increase to comply with the EU's audit directive. Therefore regulation 2.11 (formerly regulation 2.07) is amended to require firms to notify changes to this additional data. In future, the annual return will also show this data. Regulation 2.12 includes a new requirement about the network that a registered auditor may belong to. We have taken advantage of an allowance in the law so that this information does not have to be on the public register, although the public register has to show where this information can be found, for example, on a firm's website. See later for more details on the register.

Public audit register changes

A change that will not fully see the light of day until 2009 relates to the public audit register. This will become web-based and much easier for the public to access. It will include more information about firms and is driven by changes in the EU's audit directive. The information to be held on the public register is included in regulation 2.11 which deals with changes that the firm has to inform the Institute about. This will allow us to keep the register up to date. The new information that will be displayed from 2009 includes:

- website address of the firm (if it has one!);
- names of the individuals on the management board (again, if the firm has one);
- names of shareholders in a corporate practice;
- details of any audit registrations that the firm may have in any other country;
- details of any responsible individual in the firm who is also registered in another country to undertake audits; and
- details of any network that the firm belongs to and, if it does, an address (physical or web) where the public can inspect the names and addresses of all the member firms and affiliates in the network.

A 'network' is a larger structure, aimed at cooperation, which a registered auditor belongs to and which is:

- controlled by the registered auditor;
- clearly aimed at profit or cost sharing;
- under common ownership, control or management; or
- affiliated or associated with the registered auditor through common quality control policies and procedures, a common business strategy, the use of a common name or through the sharing of significant common professional resources.

An 'affiliate' means any entity, regardless of its legal form, which is connected to a firm by means of common ownership, control or management.

These changes come into effect with all the other regulations, so firms need to inform us of changes to this new information as soon as they are made. However, there is no need to provide all this new detail to the Institute immediately. We will collect the new information over the coming year using the annual return so that we are able to add all the details to the register as soon as we are required to do so in 2009.

Chapter 3 – Conduct of audit work

We have reviewed the material in this chapter and, where appropriate, deleted any material that is also in ISQC1. The 'independence' regulation, that was in chapter 6 and which only applied to corporate practices, is now regulation 3.03 and so applies to all firms. Schedule 1 to chapter 3 provides a different view of this regulation by setting it out as a diagram.

There is a new requirement about access to audit working papers when an audit appointment changes and the requirements for signing an audit report have changed too. See separate boxes on these topics.

There are two other new requirements concerning access to audit working papers (3.13. and 3.14). The first (in regulation 3.13) applies to subsidiaries of UK companies based outside the EEA. A monitoring unit, which could be the Institute's or the Audit Inspection Unit (AIU), may ask to see the audit working papers of such subsidiaries. This means that firms need arrangements in place with the overseas firm to access its papers if requested. This assumes that the firm does not, as a matter of course, keep a copy of the other auditor's working papers. No special arrangements are needed by the firm if arrangements have already been made with the other country's audit oversight authority and the oversight authorities in the UK or RoI for the transfer of papers. There will eventually be a list of such arrangements on the website of the Professional Oversight Board, but there are none at the moment. These arrangements are not needed for subsidiaries within the UK, RoI or other EEA states.

The second requirement (set out in regulation 3.14) is that, if requested by an oversight body from outside the EEA, a registered auditor must provide a copy of its own working papers. Such a request would come via the UK oversight authorities and would only be granted by the oversight authorities if there were an agreement in place with the other country and other conditions were met. These are all set out in the regulation.

Both regulations 3.13 and 3.14 apply to the audits of financial years starting on or after 6 April 2008.

Within the UK, there are arrangements for 'major audits' to be reviewed by the AIU. A new regulation requires firms to inform the Institute if they acquire such a client (or an existing client becomes a 'major audit' client). The Institute will then pass this information to the AIU. The purpose of this regulation is to enable the AIU to undertake its work efficiently. This should be a benefit for all. The list of the entities defined as 'major' can be found at www.frc-pob.org.uk/pob or at www.icaew.com/auditnews. Large firms, with whom the AIU maintains an ongoing and deeper relationship than with other firms, can seek a dispensation from this regulation. The AIU's involvement with these firms is such that the AIU is virtually in constant attendance and is very quickly made aware when new 'major audit' clients are acquired.

Regulation 3.20 (formerly 3.14) has been amplified so that, as well as undertaking an annual compliance review, the firm should take prompt action to deal with any issues arising out of the review. This includes communicating the changes to principals and staff.

To assist firms that are considering adopting different structures, the definition of who can be the audit compliance principal has changed. The individual must still be a responsible individual but does not have to be a principal. However, if the compliance principal is not a principal in the firm, he or she must be on the management board. This change reflects the differing structures that firms are considering, but maintains the audit compliance principal as an important individual within the firm.

Signing audit reports

There is a major change affecting how audit reports are signed. In future, the name of the responsible individual in charge of the audit must be given as well as the name of the firm (as it appears in the audit register). That individual must sign the report in his or her own name and after the individual's name should be added the term 'Senior Statutory Auditor'.

The term 'Statutory Auditor(s)' rather than 'Registered Auditor(s)' should be added after the name of the firm.

The Auditing Practices Board will provide guidance on how firms should identify the senior statutory auditor, but he or she will have to be a responsible individual.

In specified circumstances, the Companies Act 2006 allows for the name of the individual to be omitted. These circumstances are expected to be very rare, so firms should consult the Act on this point.

This regulation applies to audit reports on financial years starting on or after 6 April 2008. It does not apply to reports signed after 6 April 2008 for financial periods starting before that date, so it may be some time before you have to sign a report on the new basis. Until then, you should sign in accordance with regulation 3.10 of the 1995 edition of the regulations (ie, the version that has otherwise been superseded).

Early adoption is not advocated because the law specifically states that, by signing his own name, the individual does not take on any additional liabilities other than those that already exist. It is not clear that this protection will be available to the individual if a report is signed in the new way before there is a requirement to do so.

One final complication: many pieces of legislation require a report by a registered auditor. However, the new signing requirements change at different times, so before you sign an audit report, check whether the relevant law that applies to your report has changed. It **has** changed for companies, building societies, insurers, Lloyds' syndicates, banks and partnerships (see section on definitions for more information on these partnerships). It **will** change for LLPs for accounting periods starting on or after 1 October 2008.

Access to audit working papers on change of audit appointment

Another regulation that needs careful consideration is regulation 3.09. The EU's audit directive (and therefore company law and, in turn, the audit regulations) includes a new requirement for when an audit appointment changes.

For financial years starting on or after 6 April 2008, when an auditor ceases to hold an audit appointment, the successor auditor has a right, but not an obligation, to look at the working papers of the predecessor auditor. The process for doing this is set out in the guidance that accompanies regulation 3.09.

The Institute will also be issuing additional guidance on this topic (to be found, when published, at www.icaew.com/auditnews). This includes standard letters that can be sent to the client and between the auditors. The new arrangement will help the new auditor understand the business of the new client and with auditing the opening balances and comparatives. However, the key point is that each auditor (the 'old' and 'new') remains solely responsible for their respective audits. The successor auditor is not relieved of any duties or obligations merely by reviewing the predecessor's working papers, and no new ones are created for the predecessor auditor.

There are also changes to the statements that are required when an audit appointment changes. See separate box.

Chapter 4 – Appropriate qualifications and responsible individuals

Chapter 4 defines those individuals that can become responsible individuals and how. A new schedule to the chapter sets out all the qualifications needed to be a responsible individual or to count towards the majority control requirement. The status of responsible individual takes on a new importance as such a person is a 'statutory auditor' in his or her own right under UK law. However, before such an individual can accept audit appointments, the individual has to be registered in accordance with the audit regulations. Simply holding an appropriate qualification or a practising certificate is not sufficient; registration under the regulations is also required.

Because of the changed status of a responsible individual, there is a new regulation that sets out when responsible individual status ceases.

Another change in this chapter is the deletion of the concept of 'qualified individual'. This term was previously only used to define someone who holds the appropriate (ie, audit) qualification and a practising certificate. These were the individuals who had to control a majority of the voting rights in an audit firm. Changes in company law now allow others, such as auditors from EEA states, to count towards the majority control of an audit firm, and this aspect is dealt with in chapter 2. Members who are principals in a firm will have a practising certificate for other reasons. Therefore, the need for the term 'qualified individual' is much reduced and, to help simplify the regulations, it has been deleted.

The Companies Act requires the audit regulations to prohibit a responsible individual from joining an audit client for a two-year period after he or she was last associated with the client. This is set out in regulation 4.06. It only applies to a client whose shares or debentures (of any class) are admitted to trading on a UK regulated market, or a material subsidiary of such a client. The prohibition remains even if the individual ceases to be an Institute member.

Chapter 5 – Audit affiliates

The main change here is that the separate sections are combined to create a single chapter that applies to affiliates of the three Institutes. Other changes in this section are simply to accommodate this merger. There are no substantive changes to the process for obtaining affiliate status.

Chapter 6 – The committees

Previously, this chapter was about corporate practices. When the regulations were amended in 1995, corporate practices were thought to need special regulations. Now, even though the number of corporate practices has increased considerably, the view is that they can be dealt with in the same way as other types of firm. The chapter on corporate practices is therefore deleted,

and other chapters have been amended as necessary (for example, regulation 2.03 has specific subsections to deal with corporate firms).

As a result, the chapters that follow move up by one and chapter 6 is now about the various committees in the audit registration process.

In the new chapter 6, there is an important change, to clarify that the Registration Committee can look at other work undertaken by the auditor. This is work that needs the status of a registered auditor but which is not within the definition of audit work in the regulations. To give an example, the Law Society requires its firms to have a report on clients' monies from a registered auditor. This is a requirement by a private body and it is not within the definition of audit work in the regulations. However, the new regulation 6.07 clarifies that the Registration Committee can look at this work, particularly if a firm has little or no regulated audit work. The regulation also allows the Registration Committee to take action if it considers this other work is not being undertaken properly. It does not help the overall reputation of registered auditors if a firm uses the 'badge' to undertake non-audit work and does that work poorly.

The other changes to this chapter are minor and clarify existing material.

Chapter 7 – Regulatory action

This chapter (formerly chapter 8) now just deals with regulatory action. Regulations that dealt with cessation and withdrawal of audit registration are now in chapter 2.

Apart from the above change, one more significant change concerns urgent orders. Previously, these (they were very few in number) came into effect when they were made by the committee, and before the firm knew about the order! Now the order comes into effect as soon as it is served on the firm.

The last change to the chapter only affects ICAS and ICAI registered firms. This provides for regulatory penalties. This is something that the ICAEW has been able to do for some time and the detail is set out in chapter 9. The power can be used if:

- the Registration Committee is of the view that a firm has not complied with an audit regulation;
- the matter is one that could be referred to the Investigation Committee; or
- the firm agrees that it has not complied with the regulations.

In these circumstances, the Registration Committee can propose a regulatory penalty instead of a referral to the Investigation Committee. The firm can comment on the terms of the proposed penalty and the Registration Committee may decide to amend the terms of the penalty in the light of the firm's comments. If the firm does not accept the offer or fails to comply with its terms, a referral is made to the Investigation Committee.

Other changes are minor and are designed to clarify the regulations.

Chapter 8 – Representation before committees, review and appeal

Formerly chapter 9, the changes are minimal. This chapter now clarifies that affiliates and responsible individuals can also have a review or an appeal of a decision made against them.

Chapter 9 – Disciplinary arrangements

Although the changes to this chapter appear significant, they are not great in substance. Each Institute has now amended its disciplinary bye-laws or rules to deal directly with registered auditors so there is no need for the audit regulations to insert terms relevant to auditors into the disciplinary bye-laws.

Guidance chapter 1 – Fit and proper status

Changes to chapter 1 (guidance on fit and proper status) are minimal. They relate mainly to amending references to ISAs rather than SASs and there are small amounts of extra material drawn from ISQC1.

Guidance chapter 2 – Monitoring compliance with the audit regulations

The original chapter 2 on maintaining competence is deleted. Each Institute has issued substantial amounts of material on CPD since this chapter was first introduced in 1995. Given the existence of that other material, much of what was in the chapter was duplicated and so the chapter on maintaining competence has been deleted.

Chapter 2 now provides guidance on compliance reviews. Again, changes to the text are minor; some are to align material with ISQC1. The major change is the deletion of the pro-forma compliance review checklists. These checklists were originally included because there was little or no equivalent material available commercially. That is no longer the case and, since there is no requirement in the regulation to use a compliance review checklist (although using one brings great benefits), the pro-forma checklists have been removed.

Rol transitional arrangements

Since the changes to incorporate the EU's audit directive into UK and Rol law are proceeding on different timescales, changing the audit regulations has been complicated. Rather than look at each regulation and decide whether to implement or not in both jurisdictions, for Rol audits, we have simply left the 1995 regulations in place for the time being.

This is only an issue for firms with both Rol and UK audit clients. If you only have Rol clients, the 1995 regulations (as amended) apply. If you only have UK audit clients, the 2008 regulations apply. A firm that has both Rol and UK audit clients must follow the 1995 regulations for Rol audits, and the 2008 regulations for UK clients.

This means that such a firm cannot benefit from the new arrangements for the control of an audit firm and, of course, it cannot be a corporate practice. It also means that, for the Rol auditor, the facility to ask to see the predecessor's audit working papers is not available and audit reports must be signed in accordance with the 1995 regulations. When the Rol law is finalised, we will make any necessary changes to the audit regulations and the 2008 regulations will apply to Rol audits as well. That said, we hope changes (if any) will be few, as both countries are implementing the same EU audit directive!

Statements when an auditor ceases to hold office

With the new Companies Act, the statements required when the auditor ceases to hold office are now more complicated. In addition to the previous requirement for an auditor to send the company a statement of any matter that should be drawn to the attention of shareholders or creditors (which was set out in s394 of the Companies Act 1985), new procedures apply to any cessation of office after the 6 April 2008.

The following is only a brief outline of the new procedures and you should refer to the Companies Act, sections 510 to 525 for full details. You can, of course, avoid all this if you keep all your audit clients!

There is one slight change to the previous arrangements. Previously, an auditor had to provide a statement:

- of the circumstances connected with his cessation if he considered there were matters that needed to be brought to the attention of the shareholders or creditors of the company; or
- that there were no circumstances.

Now, for 'quoted' companies (basically those listed on the London Stock Exchange, but see section 531 for the full definition) an auditor must always provide a statement of circumstances. These requirements are in section 519.

Now for the new requirements...

The procedures differ depending on whether the client is a **major audit** client or not. The Professional Oversight Board (POB) has still to determine what constitutes a major audit for this purpose but it is likely to be similar to the definition used by the AIU. The definition will be available from the POB website (www.frc-pob.org.uk) and there will be a link from www.icaew.com/auditnews. The definition of a **major audit** is wider than the definition of a **quoted audit**.

For **major audits**, irrespective of the date the audit appointment ceased (provided it is after 6 April 2008), the auditor has to inform the POB that he has ceased to hold office and send a copy of the statement made under section 519. If the section 519 statement was to confirm that there were no circumstances (bearing in mind that a **major audit** may not be a **quoted** company audit), the auditor has to give his **reasons** for ceasing to hold office. This must be done at the same time that he sends the notice under section 519 to the company. See section 522 for the detailed requirements.

For other audits – but only if the appointment ceased before the end of the auditor's term of office (for the definition of 'term of office', see section 487 for private companies and section 491 for public companies) – the auditor has to inform the Institute. The information required is:

- the fact of the cessation;
- the statement of circumstances under section 519; or
- a statement of the **reasons** for ceasing to hold office if there were no circumstances.

The detailed requirements are also in section 522. The law requires you to provide us with this information at the time you send your statement required under section 519 to the company. However, the law also lets us set a different timetable. For example, we could ask for all these notifications to be included with the annual return. We are still considering the most efficient way to deal with this information and we will inform firms in a future issue of *Audit News*. If you have to supply this information before we have notified you of the final arrangements, please send this information when you send your section 519 notice to the client.

The new requirements raise a question about the definition of **circumstances** and **reasons**. **Circumstances** are those matters that the auditor considers he has to tell the shareholders and creditors about. If there are no such circumstances, there will always be a **reason**, eg, the company has been taken over and the new parent company is installing its auditor in place of the existing auditor.

The company also has to send additional notifications. If the appointment ceased before the end of the normal audit term, the company has to send a notification (section 523):

- to the POB for a major audit; or
- to the Institute for other audits.

The notification that the auditor has ceased to hold office has to be accompanied by the statement of circumstances received from the auditor under section 519. However, if the statement received under section 519 was that there were no circumstances, then the company has to give its reasons for the audit appointment ceasing. This has to be done within 14 days of receipt of the statement from the auditor under section 519.

There is no need for the audit regulations to deal with these matters because they are already covered indirectly by regulation 3.08 which requires auditors to comply with the requirements of the Act, and this includes resignation statements. Nevertheless, the guidance suggests that, as a matter of courtesy, the auditor should point out to the company the requirements of the Act and the need to send statements.

Audit and Assurance Faculty – spring roadshows

The Audit and Assurance Faculty's spring series of roadshows will include a section on the changes to the audit regulations. Other topics are:

- the Auditing Practices Board's guidance on smaller entity audit documentation;
- how ISA 315, *Obtaining an understanding of the entity and its environment and assessing the risks of material misstatements*, and ISA 330, *The auditors' procedures in response to assessed risks*, might be applied to the audit of small entities; and
- the latest developments on the APB's ethical standards for auditors.

Here are the dates and locations of the roadshows at the time of printing this issue of *Audit News*. For more information about the faculty and the roadshows, visit www.icaew.com/aaf.

Day	Date	Time	Location	Venue
Tuesday	6 May	09:30 – 12:30	Maidstone	Ramada Hotel
Wednesday	7 May	09:00 – 12:00	Hull	Ramada Hotel
Wednesday	7 May	14:30 – 17:30	Wakefield	Cedar Court Hotel
Thursday	8 May	09:00 – 12:00	Sheffield	Sheffield United Football Club
Thursday	8 May	14:30 – 17:30	Derby	Mickleover Court Hotel
Friday	9 May	09:30 – 12:30	Leicester	The Stage Hotel
Friday	16 May	09:30 – 12:30	Croydon	The Aerodrome Hotel
Monday	19 May	14:00 – 17:00	St Austell	Carlyon Bay Hotel
Tuesday	20 May	09:30 – 12:30	Exeter	Exeter Court Hotel
Wednesday	21 May	09:30 – 12:30	London	Chartered Accountants' Hall
Monday	2 June	14:00 – 17:00	Colchester	Marks Tey Hotel
Friday	6 June	09:30 – 12:30	Luton	Holiday Inn Junction 9 M1
Monday	9 June	14:00 – 17:00	Bury St Edmunds	Ravenwood Hall Hotel
Wednesday	11 June	14:00 – 17:00	Cardiff	Miskin Manor Hotel
Thursday	12 June	09:30 – 12:30	Bristol	Bristol Golf Club
Friday	20 June	09:30 – 12:30	Durham	Ramside Hall Hotel and Country Club
Monday	30 June	09:30 – 12:30	London	Chartered Accountants' Hall
Monday	30 June	14:00 – 17:00	London	Chartered Accountants' Hall
Tuesday	1 July	14:00 – 17:00	Marlow	Crowne Plaza Hotel
Monday	7 July	14:00 – 17:00	Southampton	Southampton Football Club
Monday	14 July	14:00 – 17:00	Preston	Barton Grange Hotel
Tuesday	15 July	14:00 – 17:00	Liverpool	Everton Football Club
Wednesday	16 July	09:30 – 12:30	Manchester	Manchester City Football Club
Thursday	17 July	09:00 – 12:00	Stafford	Quality Inn, Penkridge
Thursday	17 July	14:30 – 17:30	Birmingham	Aston Villa Football Club

Model articles for the purpose of the audit regulations

The audit regulations require a registered auditor to be controlled in a certain way (see regulation 2.03 of the revised regulations). If the registered auditor is a company, it is possible that persons other than the named shareholder may have interests in the company's shares which could mean that the company is no longer controlled in accordance with the audit regulations. Therefore, the directors need the appropriate powers to call for information about interests in shares and disenfranchise shareholders if necessary so that the registered auditor continues to be controlled in accordance with the audit regulations.

Model articles have been drafted to help firms achieve this and there are versions for a private and a public company.

These model articles previously contained many references to the Companies Act 1985 which has now been repealed. We have therefore updated the articles, but in a way that avoids numerous references to the Companies Act 2006. There is no need for firms using the previous model articles to adopt the new version but they may find the new version easier to understand.

The wording for the articles is at www.icaew.com/index.cfm?route=113613.

Money Laundering Regulations

The Money Laundering Regulations 2007 (the regulations) came into force on 15 December 2007 and require providers of the following services (in addition to accounting services) to be monitored for compliance with the regulations:

- company formation services; and
- firms that act as, or who provide others to act as, directors or trustees.

Many registered auditors provide these services as part and parcel of their other accounting services and the Institute will act as the supervisory authority for these services. However, firms have been asking us about the subsidiaries that they have set up which just provide the company formation and director or trustee services. Such firms need to comply with the regulations with effect from 15 December 2007 and they need to be registered with a supervisory authority by **1 April 2008**.

Following discussions with HM Treasury, we are now able to act as the supervisory authority for these firms. We are still working on the precise details of how these arrangements will work and will put further details on the website at icaew.com/practiceassurance. They are very likely to involve the subsidiary, etc. becoming part of the Practice Assurance scheme. If you want to receive an application form when it is ready, please send your contact details to amlr@icaew.com.

Important reminders from the Audit Registration Committee

The Audit Registration Committee (ARC) reviews reports from the Quality Assurance Department on the outcome of its visits to registered auditors. Communicating with firms is an important part of the ARC's role and some of the matters the ARC wishes to remind firms about are listed below.

Notification of changes to an audit registered firm

The ARC has noted that many firms only report changes within their firm on their annual return. Audit Regulation 2.07 requires any changes to the practice (which includes the addition or removal of a new principal, the appointment or removal of a responsible individual, any change in the structure of the entity or the use of a trading name) to be notified, in writing, to the Institute within 10 business days of the change. Firms should not wait to report such changes through their annual return. Any delay could make your firm liable to regulatory action.

In the revised regulations, this requirement is set out in regulation 2.11. To maintain the new public audit register, firms will need to inform us of other changes. For example, changes in the shareholders of a corporate practice, the firm's website address and its management board (assuming it has either). Notification of changes in a firm's responsible individuals will take on a new significance. Such individuals are now statutory auditors in their own right, so failure to notify changes is not just a regulatory matter, it could have legal consequences.

Payment of 2008 audit fees

Payment of the 2008 audit fees was due on 1 January 2008. If you haven't paid, please do so as soon as possible.

And finally...

The Institute's regulatory committees rely on members who are prepared to give up time to play an active part in the regulatory process and the ARC is seeking to recruit new members. Meetings are held in London, usually on a monthly basis and the committee welcomes applicants from any background, from sole practitioners to those who hold a position in a larger firm.

If you would like to join the ARC, please send your CV to Fiona Lancaster at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ or email fiona.lancaster@icaew.com.

Acting for listed clients

The Audit Registration Committee (ARC) would like to remind firms that the extra requirements relating to listed companies included within the APB's ethical standards apply to any type of listed client, including AIM listed clients and, generally, those clients with a listing on the PLUS markets.

The following comments are based on the current version of the ethical standards. The APB has just finished a consultation which could result in changes to these matters.

The ARC has recently considered a number of cases where firms have failed to identify the further ethical standards requirements for listed clients. If a firm is taking on a listed client and does not have previous experience in this area, the firm should consider engaging external assistance for the first year of the audit. In addition, the firm should pay particular attention to the following sections in the ethical standards.

ES1 – Integrity, objectivity and independence

An independent partner will need to be appointed to:

- consider the firm's compliance with the ethical standards;
- form an opinion on any safeguards adopted by the firm; and
- consider the engagement partner's documentation regarding objectivity and independence.

Paragraphs 52 and 53 also contain extra requirements when communicating with those charged with the governance of the client.

ES3 – Long association with the audit engagement

This standard has been an issue for many firms. Particular points to note are:

- a partner should not act as an engagement partner or independent partner for longer than five years;
- if the independent partner takes on the role of engagement partner, the combined period of service should not exceed five years; and
- five years should elapse before the partner is re-appointed to either role.

There are also further requirements in relation to key audit partners and other staff involved in listed company audit work which are in paragraphs 16 to 18.

ES4 – Fees, remuneration and evaluation policies, litigation, gifts and hospitality

A firm should cease to act for a listed client if the total fees for audit and non-audit services from that client will regularly exceed 10% of the annual fee income of the audit firm. This is lower than the 15% requirement for other companies. In addition, if fees exceed 5%, safeguards are needed if the firm is to continue to act.

ES5 – Non-audit services provided to audit clients

Another issue for firms has been the preparation of statutory accounts for listed clients using accounts production software. If your client wishes you to assist in this area, we recommend that you look at the 'Frequently Asked Questions' on our website (www.icaew.com/ethicsadvice) or seek advice from our Ethics Advisory Services helpline (+44 (0)1908 248 258) before agreeing to provide such a service.

Finally, the ARC recommends that any firm acting or considering acting for a listed client reads the ethical standards thoroughly to ensure that services provided will not cause the firm to be in breach of them.

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