



## Introduction

Although we have only just issued the revised *Audit Regulations and Guidance*, this *Audit News* includes details of some changes. In all cases, these should clarify or reduce the impact of the regulations.

We also have an article on common problems raised by QAD reviewers on audit visits. This does not mean that all firms are having these problems; but if you are aware of them, you can avoid them.

Auditor liability limitation becomes a reality in theory but will it be a reality in practice? Read the article and judge for yourself. Finally, the (anti) money laundering guidance becomes official following Treasury approval and the APB's ethical standards change.

## The Audit Registration Committee wants you!

The Institute's regulatory committees rely on members who are prepared to give up time to play an active part in the work of the Institute. The Audit Registration Committee is no exception and is recruiting new members. Meetings are usually held on a monthly basis in London and the committee welcomes applicants from any background; from sole practitioners to those who hold a position in a larger firm. Audit experience is, of course, a key requirement. 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](mailto:fiona.lancaster@icaew.com).

## Changes to the audit regulations

Following the publication of the revised *Audit Regulations and Guidance* we are making a number of changes. Each change is described below and either clarifies a regulation or reduces its scope. For that reason, we are bringing these changes into effect as if they were part of the original revisions and so they are effective retrospectively, from 6 April 2008. You can download a copy of the regulations with these changes included from [www.icaew.com/auditnews](http://www.icaew.com/auditnews).

### Regulation 3.07 – amendment to guidance

This regulation is about the prevention of undue influence by non-auditors over the audit process. The guidance with this regulation, however, could be interpreted as meaning that only responsible individuals can exercise judgement in relation to an audit. This is clearly not the case so the guidance has been amended to remove this inference. The revised guidance follows.

Regulation 3.07 is particularly important for mixed practices or associated firms whose principals are not responsible individuals, whatever their qualification. The regulation does not prevent such people from taking part in audit work. However, responsibility for the overall direction of the audit, its supervision, performance and reaching a conclusion that sufficient and appropriate audit evidence has been obtained before the audit report is signed must always be in the hands of responsible individuals.

### Regulation 3.16 – signing audit reports

The original version of this regulation required the name of the responsible individual in charge of an audit (known for this purpose as the 'senior statutory auditor') to be disclosed on the audit report.

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In addition, the report had to be signed by the individual in his or her own name. However, this is only a requirement of company law and, although the law extends this requirement to some other entities, the scope is more limited than the definition of audit used in the audit regulations. Consequently, the scope of this regulation has been reduced to be the same as the law as far as disclosure of the name is concerned. The implementation dates have now been finalised and these are also noted. The revised regulation and guidance follow.

### 3.16 An *audit report* must:

- a state the name of the *firm* as it appears in the *Register*;
- b include the words 'Statutory Auditor' or 'Statutory Auditors' after the name of the *firm*; and
- c if required by law, state the name of the *responsible individual* who was in charge of the *audit*, be signed by this person in his own name and include the words 'Senior Statutory Auditor' after the name of the *responsible individual*.

An audit report has to be signed by the firm with the added description 'Statutory Auditor'. There is nothing to prevent a firm adding any other appropriate description, such as 'chartered accountants'.

In certain cases the law requires that the responsible individual in charge of the audit (known as the senior statutory auditor) should sign the audit report. The individual's name must also be given. This is only required if the audit report is a report on the annual accounts for a financial year of a 'section 1210' entity (see below), a special report on abbreviated accounts or when accounts are voluntarily revised by the directors. The individual's name need not be given in the case of other reports required under the Act (for example a report under section 714 – redemption of shares out of capital) or reports on other entities included in the definition of an audit.

The APB has published guidance ([Bulletin 2008/6](#)) on how firms should decide which responsible individual is the senior statutory auditor in relation to a particular audit.

The Act allows, where there is a serious risk of violence or intimidation to the registered auditor or responsible individual, for their names not to be given in published copies of the audit report or the copy filed at Companies House, etc. If these provisions, which only apply to the 'section 1210' entities listed below, are to be invoked, it may be advisable for the entity and the firm to seek legal advice.

Other legislation that is not included in the definition of audit, or the constitution of an entity, may call for a report from an auditor. A firm may choose to sign these reports as a statutory auditor. For example, a client may require a report about it to be given to a trade association. That trade association may require the report to be given and signed by a statutory auditor. There is nothing to prevent a firm doing this and the work would not come under these regulations. However, if the Institute receives a complaint about this work, enquiries may be made into the general standard of the firm's audit work. If necessary, enquiries may be made into other work which the firm is signing as a registered auditor or conducting in accordance with auditing standards. Regulation 6.07 gives the Registration Committee the power to enquire into other work undertaken by the firm.

The requirements of this regulation apply to audit reports for financial years beginning on or after 6 April 2008. For entities listed in Section 1210 of the 2006 Act the requirement applies as follows:

- companies, banks, insurers, certain partnerships (see definition of an audit) – audit reports for financial years beginning on or after 6 April 2008
- building societies – audit reports for financial years beginning on or after 29 June 2008
- friendly, and industrial and provident societies that are insurers – audit reports for financial years beginning on or after 29 June 2008
- limited liability partnerships – audit reports for financial years beginning on or after 1 October 2008
- Lloyd's syndicates – audit reports for financial years beginning on or after 1 January 2009.

There is nothing to stop firms adding the name of the responsible individual who was in charge of the audit and having the audit report signed by this person in his own name where this is not required by law. However, the statutory protection against any additional civil liability (if such a liability exists) is not extended in these situations. If a firm intends to do this, the engagement letter should make it clear that if any claim arises it would be against the audit firm and that the individual, by reason of being named and by signing the auditor's report, is not subject to any civil liability to which he would not otherwise be subject.

Audit reports for financial periods starting before 6 April 2008, or the implementation date given above, should be signed in accordance with regulation 3.10 of the Audit Regulations (December 1995 edition, as amended).

## Appeals by a responsible individual against a decision to withdraw that status

Under company law, responsible individuals are statutory auditors in their own right. However, statutory auditors can only accept an audit appointment in accordance with the rules of a recognised supervisory body, such as the Institute. The regulations as originally drafted did not allow for a review of a decision to withdraw responsible individual status. The amended regulations 7.10 and 8.05 (see below) now allow either the firm or the responsible individual to apply for a review or lodge an appeal.

- 7.10** A decision made under *regulations 7.01, 7.03 or 4.08e* will come into effect ten *business days* after notice of it is served on the *firm or responsible individual* or any later time that the committee specifies, except:
- a** if a *firm or responsible individual* has applied for a review or hearing under *regulation 8.05 or 8.15b*, the order will be postponed until an order under *regulation 8.06 or 8.15d* has been put into effect; or
  - b** if a *firm or responsible individual* has appealed under *regulation 8.08 or 8.19*, the order will be postponed until an *Appeal Committee* order under *regulation 8.09 or 8.20* has been put into effect.

Except for decisions made under regulation 7.09, decisions come into effect ten business days after the firm has been given the decision. However, the decisions listed in regulation 7.10 are postponed if an application for review or appeal is made. The decision of the Review or Appeal Committee is the one that will come into effect.

The regulations quoted in regulation 7.10 relate to the following:

- withdrawal of responsible individual status under regulation 4.08e;
- conditions or restrictions imposed under regulation 7.01; and
- withdrawal of a firm's registration under regulation 7.03.

- 8.05** Within ten *business days* of the *Registration Committee* serving a decision or order on the affected party, it can apply to the *Review Committee* for a review of that decision or order. The affected party must apply in writing to the *Institute*. This applies to the following *regulations*:

- regulation 2.05b* – refusing to grant registration;
- regulation 2.05c* – granting of registration subject to conditions or restrictions;
- regulation 2.18* – granting or refusing to grant a dispensation from the *regulations*;
- regulation 4.05* – refusing to grant *responsible individual* status or granting such status subject to conditions or restrictions;
- regulation 4.08e* – withdrawing *responsible individual* status;
- regulation 5.05b* – refusing to grant *audit affiliate* status;
- regulation 5.05c* – granting *audit affiliate* status subject to conditions or restrictions;
- regulation 5.06* – withdrawing *audit affiliate* status;
- regulation 7.01* – imposing restrictions or conditions;
- regulation 7.03* – withdrawing registration;
- regulation 7.04* – suspending registration; or
- regulation 7.07* – an urgent order.

Note: the affected party is defined as a firm, an applicant for responsible individual status, a responsible individual, an applicant for audit affiliate status or an audit affiliate.

## Are you complying?

Based on the practical experience of QAD reviewers, this article sets out various matters which reviewers have found on visits so that other firms may learn. The article is written in the order of the International Standards on Auditing (UK and Ireland) (ISAs) and not in any particular order of importance since they are all important. It is followed by a number of other matters, again, all equally important and finally some ideas to think about for making improvements.

## **ISA 230 – Audit documentation (revised)**

There is a view that the requirement to document audit work is just to make life easier for reviewers. It is not. One of the key reasons, to quote the ISA, for audit documentation, is to enable an experienced auditor, having no previous connection with the audit, to understand:

- the nature, timing and extent of the audit procedures performed to comply with ISAs (UK and Ireland) and applicable legal and regulatory requirements;
- the results of the audit procedures and the audit evidence obtained; and
- significant matters arising during the audit and the conclusions reached thereon.'

To put this into context, 'experienced auditor' may mean:

- the partner in charge of the audit who wants to make sure that the audit work was conducted properly before he puts his name to the audit report;
- the senior on next year's audit who is trying to work out what was done (but not simply so as to copy what was done);
- the successor auditor who now has a right to look at your audit files when an audit appointment changes;
- the lawyer who may be reviewing the file because your firm is being sued; and
- finally, the QAD reviewer who may start to question your competence as an auditor if he cannot see what audit work you have undertaken from reading the file.

## **ISA 240 – Auditor's responsibility to consider fraud in an audit**

This ISA emphasises the need for communication with the client and within the audit team. Although the communication may happen, reviewers have often found that is not sufficiently documented on the audit file.

## **ISA 260 – Communication of audit matters with those charged with governance**

This ISA even has the word 'communication' in the title, but a number of firms do not appear to be applying the standard. ISA 260 probably requires more communication with the client at the planning and completion stages of the audit than the auditing standard it replaced. In audits of larger clients, who have audit committees, etc, communication on audit matters does take place. In the case of smaller audits, however, it often does not; or if communication does take place, it is not documented.

## **ISA 315 – Understanding the entity and its environment**

Many firms seem to be having difficulty with the concepts in this ISA. Controls used by the client are often discussed with the client but there is no form of confirmation. To quote the ISA, 'inquiry alone is not sufficient'. There must be some confirmation (observation, walk-through testing or some other test) that the control is in place and is being used.

Risk is a key part of this ISA. However, risk assessments are not assertion based and frequently no significant risks are identified.

## **ISA 500 – Audit evidence**

Problems arise in the following areas:

- bank and cash – lack of bank confirmations
- tangible fixed assets – existence, value and ownership
- creditors' completeness
- stock valuation
- turnover completeness

The underlying cause is often a lack of attention in identifying key audit areas and tailoring the audit approach at the planning stage of the audit.

## **ISA 560 – Going concern**

Reviewers have identified two simple issues:

- insufficient evidence to support going concern conclusions; and
- forgetting that the firm's considerations should extend to one year after approval of the audit report.

## ISA 700 The auditor's report on financial statements

Getting the audit report correct should not be difficult; in theory it is the only part of the financial statements that the auditor supplies. Nevertheless, QAD reviewers report the following matters in audit reports:

- referring to a profit when there was a loss;
- referring to UK auditing standards when the reference should be to ISAs;
- wordings from *APB Bulletin* not used when applicable;
- not using the firm's exact name as appears on the public audit register.

Generally firms do not qualify their audit reports. When they do, they should refer to the process in ISA 700 to get the report right. Yet this is not happening. Firms should also consider a second review by a responsible Individual (or other consultation procedures) before a qualified audit report is finalised.

## Other matters

### The audit compliance review

This is not a new requirement but some firms are still not doing this in a sufficiently challenging manner. Consequently, firms are not identifying the matters set out above and they continue to occur. Firms should bear in mind that the audit regulation on the audit compliance review changed in April 2008. As well as monitoring, at least once a year, how effectively the firm is complying with the audit regulations (and therefore the ISAs), firms have to take action to deal with any issues found and communicate any changes in procedures to principals and employees on a prompt basis.

### Financial statements

In your audit report you are making various statements about the correctness of the financial statements. However, reviewers continue to identify:

- missing tax charge reconciliation and the effective rate of tax;
- no auditor remuneration disclosure;
- wrong treatment of dividends (proposed dividends being accrued or included in the profit and loss account);
- poor accounting policy disclosure:
  - fixed assets – particularly the true and fair view override for non-depreciation of investment properties;
  - pensions;
  - deferred tax policy not up to date; and
  - income recognition;
- insufficient disclosures of related party transactions, including the lack of ultimate controlling party notes and disclosure for directors' loans;
- incomplete fixed asset disclosures, including:
  - depreciation not charged and no explanation given;
  - goodwill not amortised and no explanation given;
- lack of disclosure of bank loan security and repayment terms;
- lack of an operating lease commitment note;
- various pension disclosures (including the number of directors accruing pension benefits);
- no approval date on the accounts;
- no reference to the latest FRSSE;
- incorrectly showing debtors as negative creditors and vice versa.

### What to do

QAD reviewers found these matters during the course of their visits to firms. This does not mean that these issues apply to all firms, or that they all apply to some firms, or that they are all the matters that may exist. Nevertheless, all firms should consider these as they plan their next annual compliance review. If you are experiencing difficulties in applying or understanding the new ISAs, you could consider arranging an external review from a suitably experienced reviewer to lend some assistance.

If you use accounts production software packages, this does not mean that you can ignore the final, critical review of the financial statements (including proof reading, checking additions and using an up-to-date checklist). This can find errors and omissions that the software may not deal with. Of course, you need to keep your software up to date as well.

Reliance on your ISA compliant audit manual is fine, but it is no substitute for a thorough understanding of the ISA requirements themselves. How about reading the ISAs? You could also spend some time studying the APB's Practice Note 26, *Guidance for Smaller Entity Audit Documentation*, (issued in September 2007). This gives useful guidance on the application of ISAs to smaller audits, with practical examples of understanding the entity documentation, controls assessments and assertion-based risk assessments.

Since the change in CPD arrangements in 2005, there is no longer a minimum amount of CPD to achieve or a requirement to attend courses. You should identify your training requirements and select CPD activities that meet them. This applies to audit staff as well as responsible individuals. You should also bear in mind the types of clients you have. Although courses do not suit everyone, you and your audit staff should consider attending a course on the ISAs and do some follow-up work to make sure that everyone has absorbed the course content.

And just in case you thought learning about the ISAs was the end of it, the International Auditing and Assurance Standards Board (IAASB) is working on an ISA clarity project. Although the project aims to make the ISAs clearer, it may lead to greater changes to auditing standards than the switch from SASs to ISAs. This change is likely to happen in 2010. Forewarned is forearmed!

### **Ethics podcast – quick way for you to keep up to date**

The ICAEW has launched an ethics podcast which you can listen to any time and in any place. The podcast will be updated monthly with the latest ethics-related news, essential information to help members keep up to date and advice on how to deal with ethical challenges. The latest podcast topic provides you with a summary of the Auditing Practices Board's approach to independence, and highlights key policies, procedures and documentation that the APB Ethical Standards require auditors to consider. To listen to the podcast, go to [www.icaew.com/ethics](http://www.icaew.com/ethics).

## **Auditor liability limitation – time to change engagement contracts**

### **The problem**

The position for auditors on limitation of liability used to be very simple; UK company law did not allow it. Unfortunately the principle of joint and several liability entrenched in UK law meant that auditors and their fees were being used as a money bucket of first resort. For these reasons, the Institute has long held reasonable liability limitation to be in the best interests of efficient markets, shareholders and companies, as well as auditors.

### **The solution**

The Institute has been advocating proportional liability limitation; the parties, including the auditors, are held liable for their contribution to the damages, but not for that of other people if those others cannot pay. The government eventually agreed that the competition concerns merited action and a change was made via sections 532 to 538 of the Companies Act 2006. With effect from 6 April 2008, auditors have been permitted to conclude limited liability agreements (LLAs) with the companies they audit, subject to some important caveats.

One of the key words is 'permitted'. Unlike the position in, for example, Germany, liability limitation is not being imposed by law, merely allowed. The default position in the UK is that liability is unlimited unless there is a valid agreement to the contrary.

The other key word is 'caveats'. To be valid, any LLA has to be subject to shareholder approval annually and its terms must be fair and reasonable. These are sensible safeguards; no-one is trying to remove liability completely. However, they inevitably lead to complications.

First, the shareholder approval requirement has raised concerns in some quarters over what rationale directors can use to allow them to recommend LLAs to their shareholders for approval.

Also, as is often the case with legislation, the 'fair and reasonable' requirement is less straightforward than it might have been. Although we had campaigned for proportionality and the government had made statements saying that this was what they envisaged, the legislation is drafted to allow any means of limitation to be included in an LLA, examples being proportionality,

a fixed monetary cap, or a cap linked to, say, a multiple of audit fees. However, any LLA is subject to challenge in the courts and, if the courts consider the terms not to be 'fair and reasonable in all the circumstances of the case', they can substitute alternative terms. So the solution has generated as many questions as it answered.

## The solution to the solution

The answers can be found in two documents. The first is a Financial Reporting Council document, *Guidance on Auditor Liability Limitation Agreement*. This is aimed at company directors and is available from [www.frc.org.uk](http://www.frc.org.uk). It seeks to address a number of issues by:

- summarising what the law now permits and requires in respect of LLAs;
- explaining what matters an LLA should cover;
- providing specimen clauses for various types of LLA (including proportionality and a monetary cap);
- noting the views of a number of institutional shareholders who have indicated that they would be likely to oppose types of LLA other than proportionality;
- explaining the process to be followed for obtaining shareholder approval, including specimen wording for resolutions and the notice of the general meeting; and
- setting out some of the factors that will be relevant when assessing the case for an LLA.

A number of comments in the guidance relate to the last point above:

- a reference (in the introduction) to the impact on audit market concentration;
- a comment (in section 1) on the problems caused by joint and several liability and why the government's company law reform project supported removal of the prohibition; and
- examples (in section 3) of reasons why companies might conclude it appropriate to enter into an LLA.

The second helpful document is a legal opinion obtained by the Institute. This principally addresses a concern that directors – who recommend LLAs to shareholders – might face increased liability themselves as they could be in breach of their fiduciary duty to act in the interests of the shareholders. The opinion, available at [www.icaew.com](http://www.icaew.com) (under 'Technical and Business Topics', 'Audit and Assurance'), confirms that this is not an issue, providing the directors lay before the members the information they need to make an informed decision. The fact that an LLA works in favour of the auditor does not mean that concluding an LLA works against directors' duties; it is commonplace for companies to accept contractual terms of this kind as part of doing business.

The opinion also highlights that there is no problem with 'going first' and goes on to discuss in more detail some of the points set out in section 3 of the FRC guidance, *Matters the directors would be expected to consider*. These include the fairness of the LLA, the availability of other terms elsewhere, and the undesirability of changing auditors too often.

## And therefore...

Because the main problem is deemed to be caused by the size of potential claims by large multi-nationals, it is generally thought that LLAs will start with listed company audit engagements. However, the core issues are the same throughout the audit market; the rise in audit thresholds is leading to a steady decline in the number of registered auditors and, in some areas, their becoming few and far between. Consequently, LLAs are likely to become standard terms of engagement for all company audits.

### Access to audit working papers on change of audit appointment

Audit regulation 3.09 deals with access to a predecessor's audit working papers by the successor auditor when there has been a change of audit appointment.

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.

As noted in issue 43 of *Audit News*, the Institute has issued additional guidance on this topic. This includes standard letters that can be sent to the client and between the auditors. The guidance is in the form of a technical release, *Access to Information by Successor Auditors* No. 01/08, which can be found at [www.icaew.com/index.cfm?route=138434](http://www.icaew.com/index.cfm?route=138434).

## APB revise auditor independence standards

On 4 April 2008, the Auditing Practices Board (APB) issued revised ethical standards on auditor independence that apply to audits of periods commencing on or after 6 April 2008. There are some limited transitional arrangements. The basic structure of the ethical standards has not changed.

### Changes

There are some changes however, stemming from:

- the revised EU Statutory Audit Directive (implemented in the UK via the Companies Act 2006);
- prospective revisions to the International Federation of Accountants (IFAC) Code of Ethics; and
- clarification of wording in the existing standards to assist in their implementation.

The overall structure of the main ethical standards (ES1-ES5) remains the same and the provisions available for small entities (ES-PASE) have been retained. The key changes resulting from the revisions are listed below.

<b>Networks</b>	The definition and requirements for network firms have been aligned with the definition included in the IFAC Code of Ethics. This requires network firms to be independent of each other's clients. Network firms which are not part of the audit have to have global policies and procedures designed to comply with these requirements. Audit firms are required to implement revisions to their policies and procedures by 30 September 2008.
<b>Relationships</b>	Easing of requirements relating to inconsequential business relationships and financial interests for partners not involved in the audit.
<b>Cooling-off periods</b>	Additional requirements regarding cooling-off periods when partners join their audit clients.
<b>Staff loan assignments</b>	Additional requirements that staff loan assignments should be short and not used to do anything that ES5 (non-audit services provided to audited entities) would prohibit.
<b>Key audit partner</b>	Widening the scope of key audit partner (now called key partner involved in the audit) to include those primarily responsible for the audit of significant affiliates, even if not operating at group level.
<b>Audit fees</b>	Inclusion of a new requirement that audit fees should not be influenced by the provision of non-audit services to the audit client.
<b>Informed management</b>	Extended discussion of management decisions and clarification of what 'informed management' means.
<b>Valuations</b>	Extended discussions on what valuations are; and a prohibition on auditors providing valuation services to listed clients where the valuation is material and impacts on the accounts.
<b>Tax accounting</b>	Prohibition of tax accounting entries to listed entity audit clients.
<b>Contingent fees</b>	Changes in corporate finance contingent fee wording.
<b>Exemption limits in ES-PASE</b>	Alignment of small company exemption limit with that in the Companies Act; and a reduction in the exemption for pension fund audits entitled to apply the ES-PASE to pension fund audits, from those with less than 1,000 members to those with less than 100 members. This was not included in the original consultation but was apparently requested by the Pensions Regulator.

### Further work

In the APB's feedback paper which summarises the responses received on the consultation on their ethical standards, the APB noted that it intends to undertake further work in the following areas:

- the appropriate period for the rotation of the audit engagement partner and engagement quality control reviewer on listed entity audits;
- possible conflicts of interest arising from the same firm providing auditing services and restructuring services as well as other related issues raised in the Treasury Select Committee report on Northern Rock;
- independence issues which arise from using internal audit staff to work directly for the audit team;
- prohibition on financial interests of new partners joining the firm arising from previous employment;

- managers with a long association with an audited entity becoming key partners involved in the audit;
- alignment of APB's affiliate definition with that used in the IFAC Code; and
- amendments to align with the IFAC's revisions to independence requirements included in section 290 (Independence – Audit and Review Engagements).

Regarding this further work, the Institute will continue to support:

- a principles-based approach to standards;
- convergence of international and national ethical standards; and
- a move to seven-year rotation for the audit engagement partner and the engagement quality control reviewer.

More detailed information on changes to the APB Ethical Standards and other ethics-related matters can be found at [www.icaew.com/ethics](http://www.icaew.com/ethics). If you have any views on the issues raised above or would like to participate in future consultations on proposed revisions to the APB ethical standards, please email us at [ethicspolicy@icaew.com](mailto:ethicspolicy@icaew.com).

## Statements when an auditor ceases to hold office

Please remember that, with the new Companies Act, the statements required when the auditor ceases to hold office have become more complicated. We have produced guidance for firms (which includes guidance on what is the auditor's term of office) at [www.icaew.com/auditnews](http://www.icaew.com/auditnews).

The procedures differ depending on whether the client is a major audit client or not. The Professional Oversight Board (POB) determines what constitutes a major audit for this purpose and the definition is available from [www.frc.org.uk/regulation/notification.cfm](http://www.frc.org.uk/regulation/notification.cfm). There is a link to their website from [www.icaew.com/auditnews](http://www.icaew.com/auditnews).

Although we have started to receive resignation statements from firms, we have received very few from companies that, in certain circumstances, are also required to make statements. Guidance in the audit regulations 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 (and possibly provide a copy of the guidance). New auditors may wish to check that the company has complied with its obligations and that the directors are not committing a criminal offence.

## Audit and Assurance Faculty – autumn road shows

The Audit and Assurance Faculty's autumn series of roadshows will discuss the quality of audit files – common problems and solutions. The roadshow draws on the experiences of the QAD reviewers and suggests the most effective and efficient solutions to common audit problems identified during QAD visits.

Here are the dates and locations of the remaining roadshows. For more information about the faculty and the roadshows, visit [www.icaew.com/aaf](http://www.icaew.com/aaf).

Date	Time	Location	Venue
Monday 13 October	09:30 – 12:30	London	Chartered Accountants' Hall
Monday 13 October	14:00 – 17:00	London	Chartered Accountants' Hall
Monday 20 October	09:30 – 12:30	Wakefield	Cedar Court Hotel
Wednesday 22 October	09:30 – 12:30	Leicester	Best Western Belmont Hotel
Monday 3 November	14:00 – 17:00	Durham	Ramside Hall Hotel & Country Club
Monday 24 November	14:00 – 17:00	Birmingham	Aston Villa Football Club
Wednesday 26 November	14:00 – 17:00	Exeter	Exeter Court Hotel
Friday 28 November	09:30 – 12:30	London	Chartered Accountants' Hall
Wednesday 10 December	09:00 – 12:00	Cardiff	Miskin Manor Country Club
Wednesday 10 December	14:30 – 17:30	Bristol	Bristol Golf Club
Monday 15 December	14:00 – 17:00	Liverpool	Everton Football Club
Tuesday 16 December	14:00 – 17:00	Manchester	Manchester City Football Club
Wednesday 17 December	09:30 – 12:30	Preston	The Barton Grange Hotel

### Changes to the audit fee scale and AADB levy charges

The Institute's audit fee scale is currently in two parts. The first is payable by all firms and includes the regulatory share of the operational costs of the Financial Reporting Council (FRC) that are allocated to the Institute. The other part is paid by all firms (except sole practitioners with no listed clients) and is to provide for the costs of investigations by the Accountancy and Actuarial Discipline Board (AADB).

Following the government's decision to reduce its funding of the FRC in 2009 (with a consequent increase in the funding required from the Institute), the second part of the Institute's audit fee scale will be renamed the FRC levy. It will now include all the costs relating to the FRC and the AADB and will apply to all firms.

This will mean that firms will see a decrease in the first element of their audit fee, which now includes only the Institute's regulatory costs, and an increase in the second part, the FRC levy.

Overall, taking into account increases in the Institute's own costs, a sole practitioner with no listed clients and one office will see an overall increase of 4%; an 11-20 principal firm with no listed clients and two or three offices will see a 6% increase; and a 51-100 principal firm with 11-20 listed clients and 11-20 offices will see a 9% increase.

The audit fee scale for 2009 will be published at [www.icaew.com/auditnews](http://www.icaew.com/auditnews) in November 2008.

There is a third element of the audit fees which is only payable by firms whose audit work is subject to review by the AIU. There are no changes to the scope of this part.

## Anti-money laundering guidance

The *Anti-Money Laundering Guidance* issued by the CCAB (excluding Appendix A) received Treasury approval on 18 July 2008. This means that courts must now take it into account when determining whether an accountant's conduct gives rise to an offence under either the Proceeds of Crime Act 2002 or the Money Laundering Regulations 2007.

This guidance replaces the early text issued as Tech 05/07 (an exposure draft of the guidance) issued in October 2007 and Tech 07/07 (a post-consultation and pre-approval version of this guidance) issued in December 2007. The new guidance is available at [www.icaew.com/moneylaundering](http://www.icaew.com/moneylaundering).

Although this guidance was written by the CCAB bodies, it applies to all entities providing audit, accountancy, tax advisory, insolvency or related services in the United Kingdom by way of business, irrespective of membership of a CCAB body. This is because HMRC and the other accountancy bodies that are recognised under the Money Laundering Regulations 2007 have stated that they expect the firms they register to follow the guidance. It is hoped that this will promote consistency between competing firms.

The approved guidance differs from the previous published version in a number of minor ways. These changes reflect comments and amendments made as a result of both the consultation and approval processes. A summary is given below.

Ref in Technical release 07/07	Ref in approved guidance	Summary of change
1.4	1.4	Clarification that firms providing accountancy services (ASPs) and trust or company services (TCSPs) should generally follow this guidance if they are also ASPs and be aware of the HMRC guidance.
Key points section 2	Key points, section 2	Deletion of reference to prescribed manner and form.
2.14	Para deleted	The anticipated enactment of the legislative power to prescribe the manner and form of the notification to SOCA has not occurred and is not intended to be used for the foreseeable future. Electronic reporting, using the forms you can download from the SOCA website, is the preferred method and usually the easiest and most secure.
6.2	6.2	
Key points, section 7	Key points, section 7	
7.14 – 7.16	7.14 – 7.16	
8.8	8.8	
Key points, section 5	Key points, section 5	'where required' substituted by 'where there is one' in relation to beneficial ownership. This clarifies that identifying a beneficial owner (where there is one) is not optional, it must be done.
5.32	5.32	Insertion of reference and expanded content in relation to advisory notices issued by government, relating to non-AML compliant jurisdictions.
5.34	5.34	Insertion of 'part one of' in relation to reliance for the purposes of regulation 14. This makes it clear that only those accountants supervised by a body listed in Part 1 of schedule 3 of the Money Laundering Regulations 2007 can be relied on for the purposes of client due diligence procedures. For example, ICAEW, ICAS, ICAI and ACCA are included in part 1, but CIMA, CIPFA and AAT are not.
5.44	5.44	Insertion of references to asset freezing and financial restrictions.
Glossary	Glossary	Insertion of definition of 'financial restrictions'.
n/a	Annex B	Insertion of new material, for reference, dealing with financial restrictions.

Appendix A of the technical release, which provides supplementary guidance for tax practitioners, has not yet been approved. We are seeking Treasury approval for this but, in the meantime, it does not have the force of law. However, this does not stop the courts considering this and it will be taken into account by the disciplinary procedures where relevant.

Firms that also provide trust or company services as defined by the Money Laundering Regulations 2007 should follow this guidance but should also consider the HMRC guidance (MLR8) available from [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

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