



Introduction

The last two issues of *Audit News* have contained much about the revised *Audit Regulations and Guidance*. This edition is no different but we also have an important article from the Audit Registration Committee about preparing for the 'clarified' ISAs.

We also have another article on common problems discussed 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!

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Auditor cessation statements

The Companies Act 2006 brought in new requirements for notifications when auditors cease to hold office. The changes apply to cessations after 6 April 2008 and include a requirement to send the Institute (or, in the case of a 'major' audit, the Professional Oversight Board) notification of the cessation. The information sent must include a statement of the circumstances or reasons for the cessation. A circumstance is something that led to the cessation that the auditor considers he has to tell the shareholders or creditors about. If there are no circumstances, then there will always be a reason for the change of auditor. For example, the company has been taken over and the new parent company is installing its auditor in place of the existing auditor.

Full details of the requirements can be viewed at www.icaew.com/auditnews, which also gives address details of where the notification should be sent (which can be by email). This guidance includes a definition of a major audit, but firms may wish to read the Professional Oversight Board's guidance on how to make notifications to them (www.frc.org.uk/pob/regulation/notification.cfm). Firms should note that a major audit does not include a small UK subsidiary (unless it meets the definition of major in its own right) of a large overseas company. It is the situation of the UK company that determines who the notification is sent to.

Since 6 April 2008, we have received 5,170 cessation statements from firms but only 1,170 from companies. We suggest in the audit regulations that the auditor could helpfully remind the company of its responsibilities (possibly by providing a copy of the guidance note from the website).

We pass over details of all notifications to BERR. Therefore BERR is aware of companies that have not complied with the law. It is not clear if BERR is doing anything about these companies, but it would seem helpful if the ex-auditor or the new auditor assisted the company with its legal obligations.

Remember, remember the implementation of the audit regulations

The title does not quite flow as more traditional versions, but the subject matter is still important.

When the revised *Audit Regulations and Guidance* were introduced early last year, a number of the regulations had different implementation dates. This was because, in the Companies Act 2006, many of the clauses that underlie specific regulations were implemented in respect of accounting periods (and therefore audits) starting on or after 6 April 2008. Therefore, these regulations (see below) will start to bite shortly (although some may already have!).

Although there is nothing to stop firms implementing the changes on all audits at the same time, firms may wish to consider the comments provided in the audit regulations about early implementation. In the following list, if there are such considerations, these are noted.

Regulation number	Subject	Comment
3.09	Access to working papers of predecessor auditor	If a new auditor is appointed for an accounting period starting on or after 6 April 2008, it can request access to the predecessor auditor's working papers. There is considerable guidance about this in the <i>Audit Regulations and Guidance</i> . If a request is received to review audit papers for an accounting period starting before 6 April 2008, the firm should consider carefully whether the request should be granted. There is no requirement to do so.
	ERRATUM The last two sentences in this paragraph were included in error. Please ignore them!	
3.13	Access to working papers of an auditor in a non-EEA state	An auditor needs to have arrangements in place to allow a monitoring unit or an oversight body access to the audit working papers of the auditor of any non-EEA subsidiary (that is subsidiaries based outside the EU or Iceland, Liechtenstein, Norway or Gibraltar). The regulation only applies in respect of working papers of audits for financial years starting on or after 6 April 2008. As this regulation will apply to relatively few audit firms, we have placed guidance to assist in complying with this audit regulation on the website at icaew.com/auditnews .
3.14	Access to working papers of a UK auditor by an oversight body from a non-EEA country.	To some extent this is the reverse of audit regulation 3.13, and provides for access to a UK auditor's papers. It only applies in respect of working papers of audits from financial years starting on or after 6 April 2008. There are specific conditions that have to be met before access is allowed. These are set out in the <i>Audit Regulations and Guidance</i> . Of course, if you do not undertake group audits that include non-EEA subsidiaries, this regulation and regulation 3.13 do not apply to you.
3.16	Signing audit reports	Audit reports for accounting periods starting on or after 6 April 2008 need to disclose, and be signed by, the responsible individual in charge of the audit (known as the senior statutory auditor). The law (Companies Act 2006, section 504) provides that no additional liability attaches to the individual who signs the audit report. It is not clear if this particular section is effective if an individual signs an audit report in respect of an accounting period starting before 6 April 2008. Firms should take this into account if deciding on early adoption. (See elsewhere in this edition of <i>Audit News</i> for further guidance on signing audits reports.)

New audit register

The new public audit register will be available from 29 June 2009 from www.icaew.com/auditnews. The register will include extra data that we have not previously collected. This extra information, which may not apply to all firms, is:

- details of any other country in which the firm is registered to undertake audit work;
- details of any other country in which a responsible individual is registered to undertake audit work;
- details of the network that a firm belongs to;
- (for a firm that is a company), the names and addresses of the shareholders; and
- (for a firm that has a management board), the names and addresses of the members of the management board.

Audit regulation 2.11 requires you to tell us of changes to the above, and give us other information about your firm which will also appear on the public register.

Audit regulation 2.12 gives the definition of a network. A firm that is a member of a network has to have details of the network available for public inspection. The details can be on the firm's website or on public display at the firm's offices. Regardless of which route is chosen, we need to know where so that the information can be placed on the audit register. It is your responsibility to keep the details of the network up to date.

If you have completed an annual return since May 2008, we already have this extra information. If you have not, we will be writing to ask for it, but it would help us greatly if you could supply this information now, by writing to:

Regulatory Support

The Institute of Chartered Accountants in England and Wales

Metropolitan House

321 Avebury Boulevard

Milton Keynes

MK9 2FZ

All change on the helplines

In December 2008, the Institute implemented a consolidation of helpline telephone numbers and a restructuring of opening times. The new helpline numbers and a brief summary of the types of query addressed by each line are given below.

Members Information: +44 (0)1908 248 250

- Option 1 – payments, subscriptions, refunds
- Option 2 – membership enquiries
- Option 3 – special interest groups, FCA enquiries, audit qualification, PII, CPD and complaints, Practice Assurance

Technical Advisory Service: +44 (0)1908 248 025

- Option 1 – accounting, auditing, company law
- Option 2 – ethical issues, money laundering issues
- Option 3 – practising certificates, letterheads, marketing

Student Support: +44 (0)1908 248 040

- Option 1 – how to become an ACA, credit for prior learning, student recruitment, exam enquiries, training contract enquiries, how to apply for membership
- Option 2 – other ICAEW qualifications
- Option 3 – any other

Most helplines are open 09:00 to 17:00 Monday to Friday, except on Wednesdays when the lines open at 09:30. Student Support, option 1 is open until 17:30.

For further information, visit www.icaew.com/support.

Clarified ISAs are coming – start preparing now

The APB has just announced that it will be adopting the 'clarified' international standards on auditing (ISAs). It is planning to expose a complete suite of ISAs, as drafted by the International Auditing and Assurance Standards Board (IAASB), with a limited number of 'pluses' to deal with UK and Irish law and other matters. The exposure draft is expected at the end of April. This article explains what has happened so far and what firms need to do in the future.

What has happened so far?

In 2004, the APB made the strategic decision to base UK and Irish auditing standards on International Standards on Auditing (ISAs). One of the reasons for this was to be able to benefit from future improvements in the ISAs, so any changes would ripple through into the UK and Ireland.

ISAs are drafted by the IAASB and it will soon complete an important project to update and reformat the ISAs. This project was undertaken to improve the clarity of the ISAs and make them more compatible with regulatory frameworks, including the EU's Statutory Audit Directive.

The changes relate largely to the way the standards are presented, including:

- describing an objective for each ISA;
- separating the requirements in each ISA from the guidance material;
- clarifying the obligations imposed on auditors by the requirements of the ISAs, including eliminating ambiguity about the requirements an auditor needs to meet, which arise from the use of the present tense in the guidance to the current ISAs;
- improving the overall readability and clarity of the ISAs through structural and drafting improvements; and
- reducing the complexity of the existing ISAs; this was seen as being especially important to smaller audit firms with limited technical resources.

In addition to 'clarifying' all of the ISAs, 13 of the ISAs have also been revised and ISA 265 – communicating deficiencies in internal control – is new. Some of the revised ISAs increase the rigour of auditing standards in key areas such as accounting estimates (including fair values – ISA 540 – audit of accounting estimates), related parties (ISA 550 – auditing fair value measurements and disclosures) and group audits involving more than one audit team (ISA 600 – the audit of group financial statements).

When do the changes happen?

As mentioned above, the APB is planning to expose a complete suite of ISAs (UK and Ireland) at the end of April.

However, the APB has already consulted on and determined when the new clarified ISAs will apply. The clarified ISAs will apply to the audits of UK and Irish entities with accounting periods ending on or after 15 December 2010. For most firms, this will mean that the first application of the clarified ISAs (UK and Ireland) will be on audits for years ending on 31 December 2010.

What should firms do?

Although December 2010 may seem a long way off, firms need to start considering now how the clarified ISAs (UK and Ireland) will affect the way they conduct audits so that plans for December 2010 audits take them into account.

Planning now will pay dividends later. Reading the draft ISAs (UK and Ireland) (and even responding to the APB consultation) would be a good place to start. The clarified ISAs can be downloaded from www.apb.org.uk once they have been issued. Ways in which the Institute will be helping are outlined below, but firms will also need to start planning and undertaking appropriate training in good time for when the clarified ISAs apply.

Remember, auditing is a thinking process. Completing standard audit programmes just because they are there, does not lead to cost-effective, quality auditing.

What will be the monitoring approach?

The Audit Registration Committee is aware that there will be interest in how the Quality Assurance Department (QAD) assesses the implementation of the clarified ISAs (UK and Ireland) particularly in respect of audits of small and medium-sized entities (SMEs). As with the introduction of any new standards, it is recognised that there will be a learning curve for all practitioners, and QAD will work constructively with audit firms to make sure that feedback on implementation is shared and fed into the continual improvement process.

It is expected that QAD audit file reviews of clarified ISA audits will be conducted with a view to ensuring that the clarified ISAs are implemented robustly, but in a manner that is proportionate to the size and complexity of the entities being audited.

Help and assistance

The Institute is discussing with the providers of audit manuals and courses how they might adopt a proportionate approach to incorporating the clarified ISAs into their material. However, successful implementation depends on firms tailoring the audit programmes to the needs of the particular audit, rather than using them by rote.

The Audit and Assurance Faculty will ensure members are kept up to date with developments through the usual channels: *Audit & Beyond* (the faculty's newsletter), the faculty roadshow (see details elsewhere in this edition of *Audit News*) and other publications as appropriate (www.icaew.com/aaf).

The APB is considering revising practice note 26 – *Guidance for smaller entity audit documentation* – to take account of the clarified ISAs and is producing a document that highlights the major changes. However, this should not replace study of the standards (which can be viewed at www.apb.org.uk/apb/publications/iaasb.cfm).

Lastly, on forthcoming visits, the QAD will start to discuss with firms how they are preparing for the implementation of the clarified ISAs, including plans for training, and how the QAD can assist in this process.

Signing audit reports

Tell us about changes – as they happen

As you may know from reading *Accountancy*, for a firm to allow (either by design or accident) an individual who is not a responsible individual to sign an audit report has consequences. In some respects, those consequences are now raised a few notches, given the imminent arrival of the public audit register. Members of the public (and other firms) will be able to check that an individual, who now has to give his or her name on the audit report, is properly authorised to sign the report.

So please, as required by audit regulation 2.11, notify us of changes of responsible individuals as these happen (within 10 business days). For new appointments, the responsible individual cannot be in charge of audit work and sign audits reports until the Institute has confirmed the appointment. Telling us of changes on the annual return is too late!

How you should sign

At the moment, an audit report simply gives the printed name of the audit firm, as it appears on the register. The responsible individual then signs the report in the name of the firm. For audit reports on accounting periods starting after 6 April 2008, the name of the responsible individual in charge of the audit must be given and the report has to be signed in his or her own name, not in the name of the firm. This individual is known as the 'senior statutory auditor' and this phrase must be added to the signature block.

We have started to receive queries about how the name should be signed. These are typically of the type 'my name is William, but I sign myself as Bill – what should I do?'

The printed name must be as it appears on the register which will be in the format: first name, surname. This is taken from the membership details we already hold. There is no need to include your designatory letters (they will be on the register) but you worked hard for them! Then you sign your usual signature. So an individual with the name of William Smith may have a usual signature of:

- William Smith
- W Smith or
- Bill Smith

Any of these are acceptable on the basis that it is your usual signature. So an audit report signature block may look like this:

<<usual signature>>
William Smith FCA
Senior Statutory Auditor
for and on behalf of
<<Audit firm name>>
Statutory Auditor
Chartered Accountants
<<Address>>
<<Date>>

Changes to the Audit Inspection Unit's scope

The AIU is responsible for the review of 'major' audits. Each year it publishes a list of what constitutes a major audit. It has just published its latest list (www.apb.org.uk/pob/press/pub1905.html) and there are two changes.

- For AIM or PLUS-quoted companies the market capitalisation threshold has reduced from £100m to £50m. This reflects the significant reduction in the overall market capitalisation of these companies during the past year and the AIU's wish to keep the proportion of AIM or PLUS-quoted companies within scope broadly constant.
- Reflecting the relative level of public interest involved, the audits of Lloyd's Syndicates have been removed from the scope of the AIU's work.

Please remember that, under audit regulation 3.15, if your firm is appointed to a 'major' client, or an existing client becomes a 'major' client, you should inform the Institute.

Auditor independence – consultation on proposed revisions to Ethical Standards

When the Auditing Practices Board (APB) issued their Ethical Standards in April 2008, they identified a number of issues where further work and dialogue was required. This work is now complete and, as a result, the APB is consulting on possible revisions in a number of areas. Some of these are:

- the appropriate period of time for the rotation of audit engagement partners and engagement quality control reviewer of listed entity audits;
- remuneration and performance evaluation policies for key partners involved in audits;
- financial interests of new partners in the firm's audit clients;
- internal audit staff of the audit client working directly for the audit team;
- provision of non-audit services to an audit client relating to securitisation and restructuring services; and
- alignment with the revisions to the IFAC *Code of Ethics*.

On rotation periods, the APB is proposing to provide increased flexibility in this area by extending the period for rotation of:

- audit engagement partners from five to seven years in certain circumstances and with prior approval of the audit committee and disclosure to the shareholders; and
- engagement quality control reviewer to seven years.

The APB deadline for comments is 15 June 2009 and the consultation document can be downloaded from www.frc.org.uk/apb/press/pub1886.html. It would be very helpful to us if firms who intend to respond (and even those who do not want to respond directly to the APB) were to send in their comments to help us draft the Institute's response. Please send them to ethicspolicy@icaew.com, ideally by 30 April 2009. For further information, visit www.icaew.com/ethics.

Audit and Assurance Faculty roadshows – autumn 2009

The Audit and Assurance Faculty's 2009 roadshows will focus on the recently announced implementation of clarified ISAs in the UK in 2010. John Selwood, who has presented on ISAs at faculty roadshows for several years, will be bringing his experience and knowledge of ISAs to practitioners across the country once again. John is likely to focus on:

- the changes needed to firms' methodologies to accommodate the new standards;
- the core clarified ISAs on documentation and risk; and
- those new ISAs that have been revised as well as clarified, such as those on groups and related parties.

Date	Time	Location
Monday 13 October	09:30 – 12:30	London
Tuesday 1 September	14:00 – 17:00	Bury St Edmunds
Friday 4 September	09:00 – 12:00	Durham
Tuesday 8 September	09:00 – 12:00	Bristol
Thursday 10 September	09:00 – 12:00	Colchester
Friday 11 September	09:00 – 12:00	Stafford
Monday 14 September	09:00 – 12:00	Croydon
Wednesday 16 September	09:00 – 12:00	High Wycombe
Tuesday 22 September	09:00 – 12:00	Liverpool
Wednesday 23 September	09:30 – 12:30	London
Thursday 24 September	09:00 – 12:00	Southampton
Tuesday 13 October	14:00 – 17:00	Luton
Wednesday 4 November	09:00 – 12:00	Derby
Thursday 5 November	09:00 – 12:00	Preston
Friday 6 November	09:00 – 12:00	Manchester
Thursday 12 November	09:00 – 12:00	Birmingham
Monday 16 November	09:00 – 12:00	Maidstone
Friday 20 November	09:30 – 12:30	London
Monday 23 November	09:30 – 12:30	London
Thursday 3 December	09:00 – 12:00	Sheffield
Friday 4 December	09:00 – 12:00	Leicester
Monday 14 December	14:30 – 17:30	Wakefield
Tuesday 15 December	09:00 – 12:00	Cardiff
Thursday 17 December	09:00 – 12:00	Exeter

When finalised, further details including an application form, will be posted on the faculty's website at www.icaew.com/aaf and at www.icaew.com/events.

Going concern

In the current economic climate, going concern has taken on a whole new importance. The Audit and Assurance Faculty held an event recently to look at going concern matters and to give guidance to directors and auditors on their responsibilities in this area.

This article sets out some of the key areas covered during the event and a longer version will appear in a forthcoming issue of *Audit and Beyond*, the faculty's newsletter.

The going concern assumption

Under FRS 18, *Accounting Policies*, and the Companies Act 2006, financial statements in the UK are nearly always prepared on a going concern basis. Directors are required to consider whether the company can continue to trade for the foreseeable future. Where there is an audit, auditors will consider how the directors have fulfilled this responsibility and perform relevant audit procedures.

The directors have to consider a minimum period of 12 months from the accounts approval date. If they consider a shorter period, the auditor will have to state this in their report. Often directors will consider a longer period of two to three years. If they do, then the auditor should consider the same period.

Going concern disclosure

With the exception of listed companies, disclosure in the financial statements of the going concern assumption is only required where there is significant doubt about its validity.

The recent Financial Reporting Council (FRC) guidance, *An update for directors of companies that adopt the financial reporting standing for smaller entities (FRSSE): going concern and financial reporting* (www.apb.org.uk/publications/pub1882.html), reminds directors of audit exempt companies that they also have to consider the validity of the going concern basis and disclose material uncertainties that cast significant doubt on it. The FRC guidance also includes examples of what this disclosure could look like.

Another good source of guidance (although primarily aimed at listed companies) on the wording of disclosures is the Auditing Practices Board (APB) Bulletin 2008/10, *Going concern issues during the current economic conditions* (www.apb.org.uk/apb/publications/pub1824.html).

The audit report and added emphasis

For auditors, the biggest single issue is the use of the added emphasis paragraph. This is added to the audit report to modify it (this is not a qualification) if there are material uncertainties. An emphasis of matter is cross referenced to the directors' disclosure on going concern in the financial statements.

The example wording of the added emphasis paragraph is available from APB Bulletin 2006/6, *Auditor's Reports on Financial Statements in the United Kingdom*, (www.apb.org.uk/apb/publications/pub1170.html). From a technical perspective, auditors should modify the report in this way if there are material uncertainties that lead to significant doubt about the validity of the going concern basis.

In the real world, there are external pressures on auditors. Audit clients might react negatively to the addition of the added emphasis on going concern. Sometimes an auditor might be aware that comment on going concern might be the precursor to the withdrawal of bank support. On the other hand, auditors are conscious that, if the going concern paragraph is not added to their report and the business goes under, they might be vulnerable to litigation for negligence.

There are two ways that individual auditors and their firms can address these pressures. Firstly, audit partners should consult. The use of second partner reviews and external consultations can safeguard auditor independence. Secondly, auditors should very carefully consider the audit work they need to do and document the information that supports their conclusion.

The faculty hopes to run this event again in the near future, so please check www.icaew.com/aaf for further details.

What we found on visits

As you might expect, QAD reviewers see many firms and many things. To help you, this article summarises recent topics of discussion on audit visits so that you can learn from others.

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 then followed by other matters, again, all equally important.

Auditing standards

ISA 210 – Terms of audit engagements

Common issues with letters of engagement were:

- reference to incorrect legislation (including lack of tailoring for specialist/regulated clients);
- reference to SASs instead of ISAs; and
- reference to NCIS instead of SOCA and reference not being made to the latest Money Laundering Regulations 2007.

ISA 230 – Audit documentation

ISA 230 requires that the audit files should be sufficiently documented to allow an experienced auditor, with no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed; the results of those procedures and the audit evidence obtained; and significant matters arising and the conclusions reached. A practical test for this is to ask yourself whether an experienced auditor could, from the information supplied, understand the above points.

ISA 240 – Auditor’s responsibility to consider fraud in an audit

This issue is consistent with the ISA 260 findings as not all firms are communicating appropriately with their clients at the planning stage and fraud risks are not specifically discussed. In addition, team discussions are often not conducted, or not recorded. Finally, some firms do not seem to appreciate that income recognition is presumed to be high risk, and therefore the audit approach needs to reflect this, unless the audit team can justify, in writing, a different approach.

ISA 250A – Consideration of laws and regulations

Problems arise in the following areas:

- identification of the key legal and regulatory requirements affecting the client at the planning stage of the audit;
- follow-up at the fieldwork stage of the client’s compliance with the laws and regulations identified at planning; and
- lack of evidence of discussion with the client, review of regulatory reports and correspondence, and a lack of review of correspondence or direct confirmation with legal advisers.

ISA 260 – Communicating audit matters to those charged with governance

Not all firms have the required discussions at either the planning or completion stage or, if they do, there is no record. This is a vital requirement in all audits.

ISA 315 – Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement

The issues arising include:

- insufficient recording of the understanding of the entity – mainly noted on specialist audits;
- no confirmation of the design and implementation of the controls used by the client (eg, via observation, walk-through testing or some other test);
- risk assessments not always performed on an assertion basis; and
- often, no significant risks identified.

ISAs 500-505 – Audit evidence

Lack of sufficient audit work still ranks as a common finding, particularly in the following areas:

- bank and cash – lack of bank confirmations
- expenditure – occurrence
- creditors completeness
- turnover completeness
- other debtors – existence and/or value
- stock valuation.

The underlying cause is often a failure to identify the key audit areas and to tailor the audit approach at the planning stage.

Also, firms are not using their audit procedures or manuals effectively (in some cases not at all!) or not using specialist audit procedures or tailoring standard procedures sufficiently for specialist or regulated clients.

ISA 520 – Analytical procedures

The main issue is with the preliminary and final analytical review; not documenting sufficient narrative to explain key variances and their impact on the audit.

ISA 560 – Subsequent events

As with going concern, a lack of recorded evidence to support the conclusions reached.

ISA 570 – Going concern

Given the current economic climate, it is perhaps not surprising that going concern is a common issue. Not all firms are considering or recording sufficient evidence to support their going concern conclusions. The current recession makes this all the

more important and it is vital that audit firms consider and record the full scope of evidence available in making their going concern conclusions, eg, review of forecasts, order books, post-year-end management accounts, discussions with those charged with governance, review of banking and lending facilities, review of minutes and legal correspondence, review of gearing, interest cover, liquidity and so on. ISA 570 provides examples to assist in compliance. The other common issue that firms sometimes forget is that going concern considerations should extend to one year after approval of the audit report and audit files should be able to demonstrate that this full period has been considered.

Valuable additional guidance is also available in APB Bulletins 2008/10, *Going Concern Issues During the Current Economic Condition*, and 2008/01, *Audit issues when financial market conditions are difficult and credit facilities may be restricted*. There is also an article on going concern in this edition of *Audit News*.

ISA 580 – Management representations

Some audit matters can only be dealt with in a letter of representation but many firms do not:

- obtain written representations where these are needed;
- obtain a representation letter before the audit report is signed;
- cover the areas of going concern, laws and regulations, fraud, unadjusted errors; or
- tailor the letter for specialist clients.

ISA 700 – The auditor's report

The most common issues are:

- failure to adopt the wording of the APB Bulletin (at the time of writing: 2006/6 for standard audit reports in the UK);
- errors in the wording and nature of audit report qualification/modifications; and
- reference to UK auditing standards instead of ISAs.

It is vital that what is, after all, the end product of the audit, is accurate. Firms should:

- ensure that their audit report templates reflect the current APB Bulletin;
- apply appropriate quality control procedures prior to signing the audit report; and
- for audit reports with qualifications or modifications:
 - refer to ISA 700 prior to finalising the audit report; in particular, to the decision tree to help determine the correct qualification or modification and also to the appropriate illustrative examples for appropriate wording; and
 - the firm should consider either a second review by a responsible individual or additional consultation procedures – both documented of course!

Financial statements

Reviewers identified the following matters, which seem to feature regularly.

- **Directors' reports:** no risks and uncertainties; no fair review of business activities; no statement regarding the disclosure to auditors; and no disclosure in relation to future developments.
- **Accounting policies:**
 - turnover and income recognition;
 - fixed asset policies: depreciation or non-depreciation; investment properties (including true and fair review override); intangible fixed assets, including goodwill; revaluation of properties;
 - pension scheme;
 - going concern where there were apparent issues.
- **Profit and loss account:**
 - auditor's remuneration, including analysis of non-audit services;
 - taxation: mainly omitting reconciliation of current year tax charge;
 - directors' remuneration: directors' pension contributions; the numbers accruing pension benefits; directors' emoluments.

- **Balance sheet:**
 - fixed assets: hire purchase/finance lease disclosures; the details regarding revaluations;
 - bank loans: terms, interest, maturity analysis;
 - operating leases: no commitment note.
- **Related parties:** no controlling party note; directors' loans omitted; and other missing RPT disclosures.

Many of these issues can be avoided by using a disclosure checklist.

Audit compliance review (ACR)

- This requirement should be second nature but some firms are misunderstanding the requirements and are not realising that the ACR process has two parts: an annual whole-firm (or firm-wide) review and an annual cold file review of a sample of audit engagements. So not all firms are conducting a full ACR.
- Some firms are not conducting sufficiently challenging cold file reviews. In other words, the reviews had identified few or no findings compared with the findings of the QAD.
- Some firms are not following up sufficiently the matters found in order to rectify the ACR findings for the future.

Sole practitioners or other smaller firms may find it difficult to conduct effective internal ACRs, given the inevitable limitations of self-review. So, with the extent of regulatory changes and the changes to come with the clarified ISAs, such firms may wish to consider implementing the discipline of periodic external cold file reviews, (that does not necessarily mean annual). As long as you take action to review the findings, this should allow you to keep up to speed with the constant changes and should mean that you are less likely to achieve a poor monitoring outcome.

The worst mistake firms can make is, having been required to submit external hot or cold file reviews to the ARC as a result of a monitoring visit, to revert to just internal reviews or no annual reviews once the visit has been concluded to the ARC's satisfaction. Many firms have fallen into the trap of improving in the short-term after a monitoring visit, only to go back to old habits again. Repeated non-compliance and repeated poor visits are taken very seriously by the ARC and this situation is best avoided.

CPD

Since the change to the CPD arrangements in 2005, there is no longer a requirement to achieve a minimum amount of CPD or to attend courses. What you have to do is identify the training needs of audit staff and then identify the CPD activities that will best meet those needs.

If the findings of the visit show that CPD has not been effective or sufficiently far-reaching, this will usually result in the firm requiring follow-up action, including submission of CPD records to the ARC. There is a significant link between ineffective CPD and poor audit files and this emphasises the importance of CPD. This is especially the case given the imminent arrival of the clarified ISAs (see article in this *Audit News*).

Ethics

Three matters frequently arise.

- Long Association (Ethical Standard (ES) 3) – mainly responsible individuals acting for non-listed audit clients for more than 10 years without either implementing appropriate safeguards or informing those charged with governance in writing, obtaining their approval and documenting this.
- Provision of accounting services – under ES5, accounting services that involve initiating or authorising transactions or creating journals for a client without management input are prohibited unless the small company PASE exemption can be applied (which must be disclosed in the audit report). Other accounting services can be conducted provided they are not of a management nature and appropriate safeguards are applied.
- Fee dependency (ES4) – a lack of safeguards for non-listed audits with total fees regularly between 10-15%. Remember that if fees for non-listed audit clients regularly exceed 15%, there is a prohibition from accepting the audit appointment.

The above is the position for non-listed audit clients. Listed audit clients have more stringent requirements, as set out in the relevant standards.

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If you have any ideas for future articles, please email peter.burton@icaew.com.

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