



## Introduction

This is the first issue of *Audit News* that we have delivered electronically. We are doing this to help hold down costs and reduce the production time; in future we may send shorter editions more frequently. It is of course greener and enables you, as the audit compliance principal, to forward *Audit News* quickly to all the responsible individuals in your firm and others who are interested in audit work.

In this issue there is a slight change to the *Audit Regulations and Guidance*. It is a change to the guidance, not a regulation, but you will still need to act on it. There is also an article from the Audit Registration Committee and a further article about preparing for the 'clarified' ISAs. There is another article on common problems discussed by reviewers from the Quality Assurance Department 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! Finally, we answer some more queries about signing an audit report.

## Make sure *Audit News* comes directly to you

As we are now sending *Audit News* via email, please make sure that you give us your personal email address so that the newsletter does not sit in a generic email account without you knowing it is there.

To change your email address on our database, go to [www.icaew.com](http://www.icaew.com) and login using your member number and password (you can get a new password if you have forgotten it). Click 'My ICAEW', 'My details' and then 'Update registered details'. You can update your email address, address and phone number here. You can also complete your member profile if you have not done so already.

Sending *Audit News* via email means it is easier for you to circulate it to your colleagues in the audit team.

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## Changes to the audit regulations

Following the implementation of the EU's Services Directive, we have to make a small change to the guidance included in the [Audit Regulations and Guidance](#).

The EU's Services Directive is designed to allow service providers in one EU state to move more easily to another. Although the movement of auditors is governed by the Statutory Audit Directive, the Services Directive contains provisions concerning what a service provider (which includes an auditor) must tell clients and potential clients about itself and the services it provides. While the provisions apply to all 'service providers', irrespective of any intention to supply services across an EU border, three requirements have particular relevance for auditors. These are requirements to provide the name of:

- the Recognised Supervisory Body (RSB) that registers the firm;
- the register on which the firm is registered and a reference number or other means of finding the firm's entry on the register; and
- the EU member state in which the registration has been granted.

At the moment, the [Audit Regulations and Guidance](#) state (as guidance) that there is no need to give the name of the RSB. This therefore needs to be amended and information added about the audit register. The text in the regulations will still be guidance, not a regulation, but there is now a legal requirement in place requiring the disclosure of this information and the guidance suggests a way of providing that information.

The existing guidance is contained in the guidance paragraphs just above audit regulation 2.01. These are replaced with the following guidance:

While there is no requirement in the regulations for a firm's notepaper to carry a legend stating that it is a registered or statutory auditor, the EU's Services Directive, as enacted into UK law, requires such a disclosure to clients and potential clients, together with the name of the member state that the registration is for. A firm is also required to give the name of the register that its details are contained on, with a reference so that the entry can be found. This information can be supplied on a firm's website, as a note on a firm's letterhead or in documents available to the client or potential client.

A suggested wording for disclosure of the registering Institute is:

'registered to carry on audit work in the UK by the [Institute name in full]'

For the disclosure about the audit register, a suggested wording is:

'details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk), under reference number [this is the firm number provided by the registering Institute]'

In addition a firm may describe itself as a firm of registered or statutory auditors.

You can find the firm number mentioned above on your annual return. It is 10 characters long and starts C00.

The Services Directive will be enacted into UK law via a statutory instrument – the Provision of Services Regulations – effective from 28 December 2009. The regulations allow this information to be provided in a number of ways: as an item on a firm's website, on a letterhead or just as a notice in a firm's offices (and, of course, any combination of these). From a practical perspective, there is no need to reprint letterheads, etc, by 28 December. The requirements to disclose the information can be met by displaying a notice at each office of a firm, in much the same way a firm would display a notice of its public liability insurance or its registered office. When reprinting letterheads, these new information requirements can be taken into account.

You can download a copy of the regulations with these changes included from [www.icaew.com/auditnews](http://www.icaew.com/auditnews).

The 2008 edition of the [Audit Regulations and Guidance](#) does not apply in the Republic of Ireland so the above guidance does not mention that country. However, the Services Directive does apply throughout the EU and has the same implementation date throughout the EU. At the time of writing it was not clear if the directive had been transposed in Ireland. For firms that are authorised to undertake audits in Ireland (ie, firms that are not corporate practices) it would be appropriate to add a reference to Ireland in the suggested text above. The Irish audit register is not in place so there is no need to add a reference to this. For most firms, the most practical way forward may be to add a reference to Ireland to a note on their website or other notice rather than amend their letterhead.

We have also produced a [helpsheet](#) on all the information disclosure requirements of the Provision of Services Regulations.

## Auditor cessation statements

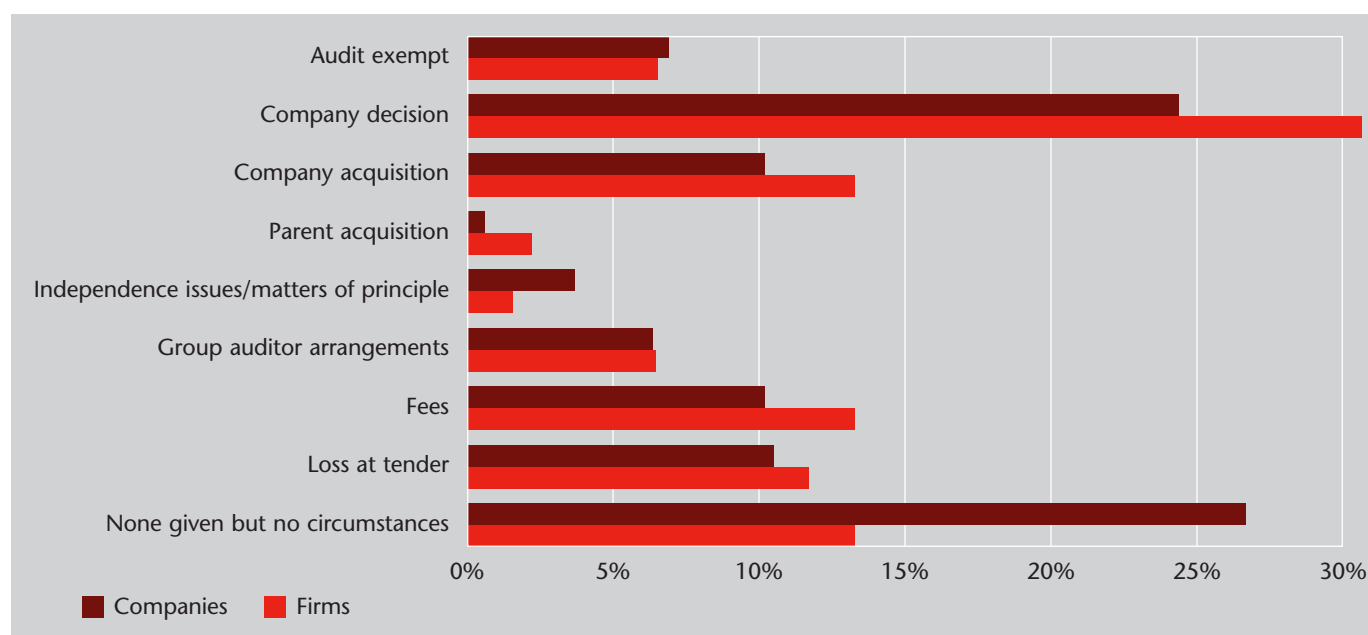
Just another reminder on the Companies Act 2006 requirements for notifications when auditors cease to hold office. Full details of the requirements can be viewed at [www.icaew.com/auditnews](http://www.icaew.com/auditnews), where you will also find address details of where the notification should be sent (which can be by email).

The guidance was updated in May to deal with the special cases of audit exemptions and when companies are dissolved. In cases of audit exemption, if the auditor stays in office, no notification is required by either the auditor (under s522) or the company (under s523), since the auditor has not ceased to hold office. If the audit firm stays in office but does not undertake an annual audit, the audit firm must still ensure that the relevant reappointment procedures are followed to retain office, eg, under s485. When the office does finally cease, or if the auditor does not stay in office, notification by the auditor may be required.

A company may cease to exist because it is dissolved under s1000 of the Companies Act 2006 by the companies' registrar or the company is dissolved following its liquidation. In such cases, notices under s522 and s523 are not needed; the office has ceased to exist rather than the auditor has ceased to occupy it. However, if the auditor ceases to hold office prior to the dissolution (perhaps in anticipation of the company's liquidation), the usual notification requirements apply.

We are still receiving far more notifications from firms than from companies. During the period January to August 2009, we received 5,951 notifications from firms but only 1,981 from companies. We suggest in the audit regulations that the departing auditor could helpfully remind the company of its responsibilities (possibly by providing a copy of the guidance note from the website). It would also seem useful if the new auditor checked that the appropriate notifications had been made and, if not, assisted the company with its legal obligations.

The following chart gives the main reasons provided by firms and companies for the cessation of the audit appointment during the period January to August 2009. There does seem to be some approximate agreement! However, if there are no 'circumstances' then there must be 'reasons'. A proportion of firms and companies are not supplying this information.



## Important reminders from the Audit Registration Committee

This article sets out some of the Audit Registration Committee's current concerns. The committee encourages audit compliance principals to distribute these reminders to all individuals in the firm who are responsible for audit work.

### Responsible individual status

If an individual signs an audit report when they are not a responsible individual (RI), the firm will be in breach of Audit Regulation 4.04 and may be liable to regulatory or disciplinary action.

Many individuals assume that they are automatically an RI when they are appointed as a principal in the firm, or when they get their practising certificate. This is not the case. In order for an individual (employee or principal) to be responsible for audits and sign audit reports on behalf of their firm, they need to apply for RI status and wait until their application has been approved.

The committee also sees instances where an individual – who was an RI in firm A – leaves and joins firm B, assuming the RI status is transferable between the two practices. This is not the case. The individual must apply for RI status within the new firm before signing audit reports.

The Companies Act 2006 now requires the name of the responsible individual in charge of the audit (the ‘senior statutory auditor’) to be disclosed on the audit report, and for the report to be signed in this person’s name. This applies to audit reports on accounting periods commencing on or after 6 April 2008 (see [Audit News, Issue 44](#) and article in this issue for further details). The names of all such individuals are now disclosed on the [public audit register](#) and members of the public, or other firms, are able to check that the signatory is appropriately authorised to sign the report.

It is therefore important for firms to make sure all individuals who are responsible for signing audit reports are properly designated as an RI within their firm. It is also important to remind those individuals who are not RIs in a firm that they cannot sign audit reports.

If you would like more information about becoming an RI and an [application form](#), please visit [www.icaew.com/auditnews](http://www.icaew.com/auditnews). If you have any questions about RI status please contact Regulatory Support on +44(0)1908 546 302 or email [regulatory.support@icaew.com](mailto:regulatory.support@icaew.com).

## Annual returns

### Notification of changes within the firm

Many firms still tell the Institute about changes to their practice by making hand-written amendments to the annual return.

Audit regulation 2.11 requires you to notify the Institute in writing of any changes to a firm as soon as practicable, and within no more than 10 business days. This includes the appointment or removal of a principal, responsible individual or audit compliance principal and change in the use of a trading name.

If you only tell the Institute about these changes once a year, via an amendment to the annual return, the firm is likely to have breached the requirement to notify us within 10 business days and may face regulatory action. It probably means that a firm’s public record is also incorrect.

### Importance of providing accurate information

The annual return is a key part of the monitoring process for audit registered firms, and it is vital that the information disclosed on the return is accurate.

The committee has seen a number of errors on annual returns, including firms that failed to disclose the fact that they act for listed audit clients; significant errors in the disclosure of the number and type of audit clients the firm acts for; incorrect confirmation of the date of the firm’s last annual compliance review and wrongly stating that the audit compliance review results were documented.

Annual returns that are not completed correctly can have a serious impact on the Institute’s regulatory function and are likely to lead to regulatory or disciplinary action against the firm.

When deciding the level of regulatory penalty to offer a firm, the committee will use the Institute’s [Guidance on Sentencing](#). The starting point for inadvertent errors and inaccurate statements in a firm’s annual return is £2,500.

The committee will refer more serious cases of deliberate or false statements made on the annual return for disciplinary action.

## External file reviews

Many firms will use an independent registered auditor to carry out external file reviews. These reviews may be conducted:

- to safeguard a firm’s independence and objectivity;
- as part of the firm’s annual compliance review; or
- to comply with a condition imposed on a firm by the committee.

External file reviews are an important part of a firm’s internal monitoring of compliance with the audit regulations and enable the firm to monitor the quality of its audit work. The committee has seen a number of poor-quality external file reviews, where the reviewer has failed to identify issues that were later identified during a monitoring visit to the audit firm. In such instances the committee will consider what action should be taken against the reviewer, including accelerating its next monitoring visit.

The committee would therefore like to remind firms that, whenever they are appointed to carry out external file reviews for another firm, they must ensure their reviews are performed in a thorough and robust manner.

## Audit regulation 3.09 – access to working papers on change of audit appointment

Audit regulation 3.09 details what could happen when there is a change of auditor. We use the words ‘could happen’ because it is up to the new auditor (successor) to decide if they want to review the files of the retiring auditor (predecessor). If the successor decides to review the files, regulation 3.09 requires the predecessor to allow access.

There has been some confusion about when this regulation comes into force, caused (in part) by an error in [Audit News, Issue 45](#), for which we apologise. The regulation is effective for new audit appointments for the audits of financial years starting on or after 6 April 2008.

It is the financial year-end that the successor will be auditing that is relevant, not when the predecessor was appointed. An example may help.

- Financial year-end 31 March 2008  
New auditor is appointed in July 2008. However, the accounting period that the new auditor will be auditing commences on 1 April 2008. As this is before the implementation date of 6 April 2008, the predecessor auditor has no obligation to allow the successor auditor access to his files.
- Financial year-end 30 June 2008  
New auditor is appointed in December 2008. As the new financial year (1 July) starts after 6 April 2008, if the new auditor asks to see the predecessor’s files, that request must be granted.

There is extensive guidance with this audit regulation. Also, the [Audit and Assurance Faculty](#) has issued a technical release ([01/08 – Access to information by successor auditors](#)) which contains guidance and specimen letters.

## Clarified ISAs are coming – start preparing now

The Institute’s ISA implementation sub-group continues to oversee a great deal of activity on ISAs, now that the Auditing Practices Board (APB) has published the final version of the UK auditing standards that will apply to audits of financial statements for 2010 audits (periods ending on or after 15 December 2010). These standards are the UK version of the clarified International Standards on Auditing. The APB has published a document that sets out the main changes from the previous ISAs. Full details are available at [www.frc.org.uk/apb/press/pub2131.html](http://www.frc.org.uk/apb/press/pub2131.html) which includes a link to the ISAs. The APB will also be publishing a revised version of Practice Note 26, *Guidance on Smaller Entity Audit Documentation*.

The Institute’s ISA group is seeking to raise firms’ awareness of the amount of work needed to move to these new standards. There have been significant revisions to many ISAs, including those on group audits and the audit of related parties, as well as a wholesale rewrite of the standards in accordance with the clarity conventions. All standards are now split between objectives (which the auditor must achieve), mandatory requirements and application material (guidance on how the requirements can be achieved). There are more requirements than previously but well-run firms will already be compliant and many requirements are conditional.

The International Auditing and Assurance Standards Board (IAASB) has implementation material, including:

- a paper on the need for proportionality in the application of the standards to SME audits
- a series of videos, slides and supporting notes

freely available from [web.ifac.org/clarity-center/index](http://web.ifac.org/clarity-center/index).

The IAASB paper demonstrates its awareness of the importance of SMEs and the danger of ‘standards-overload’. The emphasis in the paper is on **not** incurring unnecessary costs and documentation, and avoiding over-auditing. The paper helpfully acknowledges that it may be efficient to perform further audit procedures that are primarily substantive if there are not many controls, but notes that this does not remove the need for the auditor to have a proper understanding of the controls at an entity. The paper, like the standards, has numerous statements to the effect that SMEs and the application of the standard may be ‘less complex’, ‘straightforward’ or ‘less structured’, ‘less formal’ or ‘easier to achieve’, and this is a useful reminder that there is no need to over-complicate simple audits.

Among the activities that the ISA group has overseen are:

- the launch of a new ICAEW website on ISAs, [www.ISAAudit2010.com](http://www.ISAAudit2010.com);
- a meeting with training, software and methodology providers in November at which John Kellas, the former chairman of the IAASB spoke alongside current members of IAASB, and which focused on the ‘why’ of clarified ISAs. Nearly 100 providers of training, software and methodologies were scheduled to attend;

- the current Audit and Assurance Faculty roadshows, and roadshows that will take place in 2010; and
- a series of articles appearing in *Accountancy* on ISAs.

The 2010 roadshows will look at how to implement the new ISAs, including the key areas of documentation and the conduct of effective and efficient audits. Details of the roadshows will be posted at [www.icaew.com/aaf](http://www.icaew.com/aaf).

## ICAEW TECHNICAL EVENTS – WINTER HIGHLIGHTS

### Are you clear on clarity?

#### Throughout December

Cardiff, Exeter, Leicester, Sheffield, Wakefield.

Forthcoming changes to auditing standards will affect every firm of UK auditors. The Audit and Assurance Faculty's roadshow 'Are you clear on clarity?' will help auditors plan for these changes. It will focus on the new clarity Auditing Standards; the new Audit Report; the updates on APB Ethical Standards; the impact of Companies Act changes for auditors; and other important topical issues.

#### Speaker

John Selwood, chartered accountant and Independent Training Consultant.

**Prices start from £69.00**

### Are banks different?

#### 21 January 2010

Chartered Accountants' Hall, Moorgate Place, London, EC2P 6EA.

The Financial Services Faculty is hosting – 'Are banks different?' This is a major policy event providing the opportunity to discuss with leading decision-makers in the run-up to the World Economic Forum Annual Meeting 2010 in Davos. Lord Turner and Dr Josef Ackermann will deliver major policy speeches.

#### Speakers

Lord Turner, Chairman, Financial Services Authority; Dr Josef Ackermann, Chairman of the Management Board and the Group Executive Committee, Deutsche Bank; Marcus Agius, Chairman, Barclays plc; Martin Dickson, Deputy Editor, Financial Times; Stephen Haddrill, Chief Executive Designate, Financial Reporting Council; and Pauline Wallace, Head of Public Policy and Regulatory Affairs, PricewaterhouseCoopers.

**Prices start from £100.00**

To book online and to view details of other technical events, visit [www.icaew.com/technicalevents](http://www.icaew.com/technicalevents). For telephone bookings call +44 (0)1908 248 159.

## Auditor independence: changes made, maybe more to come?

### Amendment to ES3 on partner rotation

The Auditing Practices Board (APB) has issued a revised [Ethical Standard 3: Long Association with the Audit Engagement](#). It amends the rotation requirements on listed entity audits carried out in accordance with UK and Irish auditing standards. These changes cover:

- audit engagement partners, by introducing increased flexibility to rotate off the audit after seven years rather than five, under certain conditions; and
- engagement quality control review partners, by extending the maximum period from five to seven years.

The revised standard applies for audits of periods commencing on or after 15 December 2009 but, as the changes amount to a relaxation of the existing requirements, it can be applied with immediate effect from the date of issue, 6 October 2009.

### Consultation on non-audit services to listed entities

Meanwhile, a Treasury Select Committee report on corporate governance and pay in financial institutions commented briefly on the potential effect of non-audit service provision on public confidence. As a result, the APB has issued a consultation paper on whether:

- the provision by auditors of non-audit services to their listed audit clients causes a problem with public confidence;

- the current 'permit with safeguards and some specific prohibitions' approach is supported; and
- there should be a change to the APB Ethical Standards or the fee disclosure requirements in the accounts.

The Institute notes that the combination of the current independence approach and fee disclosure in financial statements has seen a significant fall in the provision of non-audit services to listed audit clients since 2002 and we believe it provides the right combination of quality control, flexibility and accountability.

We encourage members and others with an interest in the subject to respond to the APB, by the consultation deadline of 29 January 2010.

## Changes for international audits

The ICAEW bases its Code of Ethics directly on that of the International Federation of Accountants (IFAC). IFAC has recently revised its code and the Institute expects to be implementing revisions to align with the new IFAC code, with effect from 1 January 2011.

This is also the date that members of the IFAC Forum of Firms – which commits to apply the IFAC code directly in addition to national codes – will have to apply the revised requirements.

The main effect of the changes is twofold.

- Some of the terminology that applies throughout the code has been revised; this is not intended to change the substance of the existing requirements, but to improve the clarity of what is there.
- There have been significant changes to the auditor independence requirements, particularly for public interest entity audits. These changes bring the IFAC requirements closer to those of the APB. For the avoidance of doubt, the IFAC independence requirements apply only to audits not conducted in accordance with UK and Irish auditing standards, as the APB requirements continue to apply to these.

Further information on all the items above is available at [www.icaew.com/ethics](http://www.icaew.com/ethics).

## Audit fee scale and FRC levy charges

The Institute's audit fee scale is in two parts:

- the audit registration fee; this increases in line with the Institute's regulatory costs;
- the FRC levy, that is all costs relating to the Financial Reporting Council and the Accountancy and Actuarial Discipline Board (AADB).

Both elements are payable by all firms

Each year, the AADB provides an estimate of the funding it will request from the Institute for cases involving ICAEW registered firms. These costs are recovered from audit firms by a formula that shares the costs across all firms except sole practitioners with no listed clients. Recent discussions with the AADB concerning the volume of current and anticipated cases, costs of investigation and, where relevant, tribunal hearings have indicated an increase in the AADB workload. This is driven by the current economic environment and the heightened public interest in the work of auditors.

As a result, and after discussion and consultation, the ICAEW Board has approved a recommendation from the Institute's Professional Standards Board that the overall AADB element of the levy be increased by 50% with the resultant increase for your firm. In the current climate, we recognise that this will be unwelcome but it is important to emphasise that the ICAEW does not have control over decisions made by AADB and the financial consequences. Nevertheless, we must be able to respond to the AADB's funding requests.

For 2010, taking into account the increases in the Institute's own costs, a sole practitioner with no listed clients and one office will see an overall increase of 2.7%; an 11-20 principal firm with no listed clients and two or three offices will see a 5.6% increase; and a 51-100 principal firm with 11-20 listed clients and 11-20 offices will see a 8.9% increase.

The [audit fee scale](http://www.icaew.com/auditnews) for 2010 is published at [www.icaew.com/auditnews](http://www.icaew.com/auditnews).

There is a third element of the audit fees which is only payable by firms whose audit work is subject to review by the Audit Inspection Unit. We contact these firms directly.

## What we found on visits

### The QAD finds that some old habits can die hard!

We have now lived with the International Standards on Auditing (UK & Ireland) (the ISAs) for around five years and firms will soon need to consider the clarity ISAs which take effect for periods ending on or after 15 December 2010. So this is a good time to take stock, discuss what firms still need to work on to meet the existing requirements and prepare for the new clarity ISAs. In this article we look at some of the areas that are discussed more frequently on our visits and highlight some key action points. We cover:

- applying the risk ISAs
- other ISAs – common issues
- APB Ethical Standards and providing accounting services
- documenting procedures for ISQC1
- making the audit compliance review an effective process and
- paying sufficient attention to accounts presentation and disclosure.

### Applying the risk ISAs

The issues we raise on the risk ISAs indicate that many firms need to familiarise themselves more with the key concepts underpinning them. Otherwise it is difficult for firms to fully understand and apply their audit systems, and difficult to tailor them to suit the particular circumstances of their clients, especially smaller audits. Many firms subscribe to proprietary audit systems and we find that firms that the provider has trained in the use of the system are better able to tailor the audit procedures effectively. Firms may also find it helpful to read [Practice Note 26](#) from the Auditing Practices Board which provides guidance and practical examples to show how firms can approach and document their work in this area. Remember, an effective audit is probably a more cost-efficient audit!

### Obtaining and documenting understanding of the entity (ISA 315)

Firms usually know a great deal about their clients and how they operate. However, they do not always reflect this knowledge in the audit file nor do they fully understand the extent of the work they should carry out on the client's internal control system.

#### Key action points

- Document your understanding of the entity in a permanent file or equivalent – an electronic document should be easy to update each year. You need to cover each of the components set out in ISA 315.
- Meet the client every year to update this knowledge.
- Document significant accounting processes and internal controls (for those cycles which produce the material numbers in the accounts such as sales, purchases and payroll).
- Ensure you know enough about, and have documented, the accounting systems and internal controls.
- Confirm your understanding of systems and controls by inspection of documentation (for example walk-through tests) every year. You need to do this regardless of whether you are planning to rely on controls.

### Assessing and addressing risk including significant risks

ISA 315 (paragraphs 100-107) explains that the auditor should assess risk at the financial statement level (ie, more pervasive risks affecting the whole accounts) and for specific assertions related to classes of transactions, account balances and disclosures (eg, that stock exists and is correctly valued). Risk assessment procedures will be a mixture of discussions with the client, analytical review, and observation and inspection. Although firms may complete the documentation within their audit systems to demonstrate these processes, we quite often find that there is little or no link with the audit work programme. For example firms may be carrying out:

- excessive work on areas that are not that material and exhibit no particular risks;
- in-depth work on areas where no risks have been highlighted in the planning, but where the engagement team know that risks exist.

Both situations show poor planning. Involvement of the engagement partner from the outset is the key to a cost-effective risk-based approach. They should have a good grasp of the primary risks facing the client and be able to see which areas are less important.

Significant risks are risks that require special consideration under ISA 315. They often relate to non-routine transactions and judgemental matters and would include risks that could result in a material misstatement due to fraud. It is important that firms identify these risks separately as ISA 315 requires the auditor to assess any related controls. We find that firms do not always highlight risks that would appear to be significant, or if they do, it is not always clear how they plan to address them.

ISA 240 on fraud contains some specific requirements relating to fraud risk, and firms do not always pick these up.

## Key action points

Key members of the engagement team (led by the engagement partner) should meet at the planning stage to consider carefully and discuss potential risks and identify significant risks as appropriate; these often involve complex accounting areas and unusual transactions and will include fraud risks. The meeting should be documented.

- Consider, in particular, the risk of fraud relating to revenue recognition and the risk of management override.
- Make appropriate enquiries of management about fraud.
- Assess the design and implementation of controls relating to significant risks.
- Ensure your detailed audit programme reflects and links in with the results of your risk assessment procedures. Tailor your audit procedures to focus on higher risk areas, and consider whether work in less important areas can be reduced.
- Design audit procedures to address each significant risk; again, make sure the link is clear.

## Other ISAs – common issues

There are a number of other common issues and recurring points that need some attention.

### Documentation (ISA 230)

Probably still the most common theme: the extent and nature of what audit work has been done is not clear enough from the file. We also find that thought processes in key areas are not always documented; it takes discipline to document things at the right time and in the right amount of detail. Try to put yourself in the position of an external reviewer and think objectively whether you have documented enough.

### Going concern (ISA 570) – especially important in the current economic climate

If you think there could be a problem, make sure you talk to your client about going concern as early as possible.

Consider management's assessment of going concern for a period of at least 12 months from the date the accounts are approved. Approach this work with an appropriate level of scepticism.

Update this review up until the date you sign the audit report.

Consider whether additional disclosures are needed for the financial statements to show a true and fair view.

### Subsequent events (ISA 560)

Update and document your review up until the date you sign the audit report.

### Analytical procedures (ISA 520)

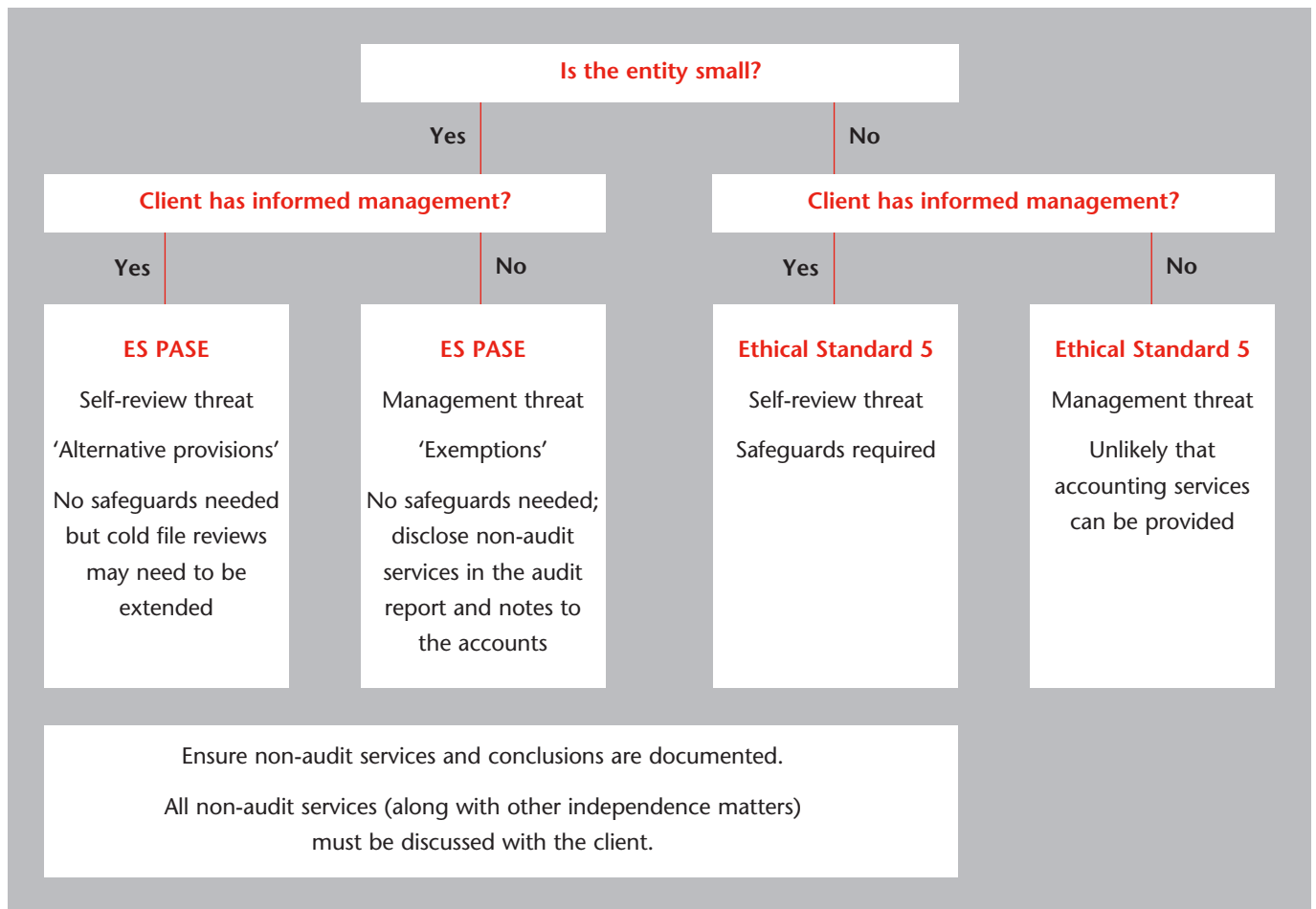
Perform a review at the planning stage as part of your risk assessment procedures.

Review again at completion as a 'sense check'.

Be clear about whether you are using analytical procedures to obtain substantive assurance. If you are, ensure you take appropriate steps to set expectations and thresholds.

## APB Ethical Standards and providing accounting services

The APB Ethical Standards introduced a number of specific requirements but with some exemptions and alternative provisions in the Provisions Available for Small Entities (ES-PASE). We find that many firms do not fully understand these requirements or how to apply ES-PASE, in particular when accounting services are provided to clients. This diagram may help to explain how ES-PASE works.



Remember that accounting services are likely to include the preparation of statutory accounts on the firm's software, using the client's trial balance as a starting point. Accounting services also include raising journal entries.

## Documenting procedures for International Standard on Quality Control 1 (ISQC1)

Many firms do have most of the required quality control procedures, but these are not always adequately documented as required by ISQC1 which defines six key elements of a quality control system:

- leadership responsibilities for quality within a firm
- ethical requirements
- acceptance and continuance of client relationships and specific engagements
- human resources
- engagement performance
- monitoring.

Small firms generally do not need extensive documentation to meet the ISQC1 requirements. A document of two to three pages, setting out the key policies and procedures under each heading is often sufficient. If you have a purchased a proprietary manual which includes specimen quality control procedures, you should tailor them to reflect the specific circumstances of your firm. Members of the [Audit and Assurance Faculty](#) will have access to the faculty's practical booklet; this explains how smaller firms might document their procedures.

## Making the audit compliance review (ACR) an effective process

Firms are required to carry out an ACR on an annual basis. The ACR should include a review of whole-firm procedures and reviews of a sample of completed audits (cold file reviews).

Sometimes we find that a firm's cold file reviews have not been sufficiently thorough to identify areas for improvement in the audit files; and sometimes we find that successive reviews come up with the same points, indicating that the firm has not taken appropriate action to address them. Many firms now have external reviews, either by a training consortium or another firm, and these can be very beneficial, bringing a more objective view.

## Key action points

- Use a suitably detailed and up-to-date checklist to guide your reviews. You can download the Institute helpsheets from the website; these include appropriate checklists for reviewing [whole-firm procedures](#) and [audit files](#).
- Take care to consider each point on the checklist carefully; we sometimes see box-ticking without much evidence in support.
- Discuss queries and results with engagement teams to ensure conclusions are accurate and fair.
- Summarise and assess results and prepare a suitably detailed action plan.
- Provide feedback to all audit personnel without delay.
- Monitor implementation of action plan on an ongoing basis and revisit in the next year's ACR.

## Paying sufficient attention to accounts presentation and disclosure

Many firms use proprietary software to produce statutory accounts for their audit clients and have access to disclosure checklists. It is common for firms to rely quite heavily on the software to detect errors and omissions. Sometimes things slip through, particularly the kinds of disclosure that do not stem directly from the trial balance. So watch out for the following common disclosure errors and omissions which may not be caught by accounts preparation software:

- lack of explanation for adopting going concern approach when there is a significant deficiency in net assets;
- reference to incorrect version of the FRSSE;
- incomplete accounting policies;
- incomplete related party disclosures (in owner-managed businesses, these should include control, dividends, loans, rent, pension schemes);
- omission of operating lease commitments;
- lack of disclosure of secured creditors.

Then there are errors that are more common if proprietary software is not used:

- accounts not clearly defined as abbreviated;
- incorrect Companies Act references; and
- notes not tying up with the profit and loss account and balance sheet.

We generally find that there are fewer errors and omissions when a firm also completes a disclosure checklist.

## Key message for the future

Although firms are improving their audit processes, some still have not fully understood the key changes that the ISAs brought with them. There are other areas such as the ethical standards, where firms need to improve their understanding. With the clarity ISAs on the horizon, it is more important than ever that auditors have a proper grasp of the objectives and key concepts behind all the current requirements to ensure that they can deliver effective and efficient audits. Engagement partners need to lead from the front, share their knowledge of the client and drive the audit approach.

## Bank letters – reminder of the key changes

Practice Note 16, *Bank Reports for Audit Purposes*, was revised in 2007 and has been in use for audits of accounting periods beginning on or after 27 December 2007 – effectively, December 2008 year-ends onwards. This is a reminder of some key features of the revised practice note.

### Timing of requests

Letters should be sent so as to be received by banks at least one month before the year-end date and preferably earlier than this at busy periods. This enables the banks to prepare the information and send it in good time to auditors.

### Where to send requests

Bank letters will reach their destination more speedily if you use the contact addresses for the major banks available from the British Bankers Association website at [www.bba.org.uk](http://www.bba.org.uk). We suggest that you:

- check contact details for your clients' banks whenever you send requests, as the information is kept up to date to reflect any changes in banks' processing systems; and
- have contingency plans to ensure the best possible service in the event of postal disruption.

## Use of fast-track requests

You are reminded that fast-track requests should only be used when there is a genuine need for an accelerated timescale. If requests are fast-tracked unnecessarily, banks will be unable to respond to genuine requests within the required timescales. Banks will not fast-track letters that have been delayed just because the wrong address has been used.

## Provision of main account number and sort code

You need to provide these numbers for every legal entity included in the report request, as they are used by the banks to search for the information requested.

You can download the practice note and bank letter templates from [www.frc.org.uk/apb](http://www.frc.org.uk/apb). Contact information for the banks is available at [www.bba.org.uk](http://www.bba.org.uk). If you have any queries or feedback on bank letters, they should contact the ICAEW Technical Enquiry Service on +44 (0)1908 248 025.

## When a statutory auditor signs

In [Audit News, Issue 45](#) we gave some guidance on how to sign your name and gave a suggested layout for the 'signature block':

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

This article looks at other aspects of signing audit reports as we continue to receive questions on this and related matters.

The signature block above is based on the provisions of s503 of the Companies Act 2006. The audit report (for financial years starting on or after 6 April 2008) must state the name of the auditor, the name of the 'senior statutory auditor' (the individual in charge of the audit) and be signed and dated. If the auditor is an individual, the report must be signed by him/her. If the auditor is a firm, the report must be signed by the 'senior statutory auditor in his/her own name, for and on behalf of the auditor'.

The requirement for the senior statutory auditor to sign in his or her own name applies to the auditor's report that is provided to the company by the auditor on completion of the audit. It also applies in respect of voluntary revisions of annual accounts and reports and on the special auditor's report relating to abbreviated accounts.

The requirement is different, however, for the copy of the accounts that is sent to Companies House for filing. These requirements are in s444 – 448 of the Companies Act 2006 and have changed. The original requirements of the act were amended for transitional reasons and now they have been amended again, back to what they originally said! So for accounts filed after 1 October 2009, that were prepared, etc, under the Companies Act 2006, the copy of the auditor's report sent to Companies House must state the name of the auditor and (where the auditor is a firm) the name of the person who signed it as senior statutory auditor. There is no requirement for the report to be signed. So the signature block above should be replicated on the filed copy of the accounts, but no signature is needed. For accounts filed before 1 October 2009, the report had to be signed in the name of the firm.

Other questions have been raised about what should happen if the senior statutory auditor is unable to sign because of illness, accident or even death. Although the law is categorical about who should sign – effectively the person who did the work, – the Auditing Practices Board's (APB) Bulletin [2008/06 The senior statutory auditor under the UK Companies Act 2006](#) provides some guidance (in paragraphs 13 to 15) suggesting actions that may be taken if the senior statutory auditor is unable to sign the auditor report. In some cases, it may be possible just wait until the senior statutory auditor returns to work. In other cases, you can consult the APB guidance. The [Audit and Assurance Faculty](#) has also published some useful guidance in its July/August 2009 edition of *Audit and Beyond*. Two points stand out:

- finalise the audit as soon as possible; allowing a long period of time to elapse between the end of the audit and signing the report brings extra risks of 'events' happening; and
- plan ahead, using the guidance above.

The requirements for the senior statutory auditor to sign the audit report apply to those entities listed in s1210 of the Companies Act 2006:

- companies, banks, insurers, certain partnerships – 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.

For audit reports on the entities above that are for accounting periods commencing before the date noted, the audit report is signed in accordance with the 1995 edition of the audit regulations:

<<usual signature in firm name>>  
 <<Audit firm name>>  
 Registered Auditor  
 Chartered Accountants  
 <<Address>>  
 <<Date>>.

For audit reports on other entities that are included in the definition of audit in the audit regulations, there is no need to identify the senior statutory auditor, so the signature block, for reports on accounting periods starting after 6 April 2008, should look like this:

<<usual signature in firm name>>  
 <<Audit firm name>>  
 Statutory Auditor  
 Chartered Accountants  
 <<Address>>  
 <<Date>>.

You may also be issuing audit reports on other entities that are not included in the definition of audit in the audit regulations. We suggest you follow the signing requirements of the relevant legislation or professional/trade body that is requiring the report. If a specific formulation is not required, we suggest using the format above, signed in the firm's name.

It does not really matter whether the firm is referred to as statutory 'auditor' or 'auditors'; as the firm is singular, it would seem appropriate for the title to be singular too.

There are some new requirements for filing accounts at Companies House. Some of these provisions stem directly from the Companies Act 2006, others give Companies House powers to require documents to be delivered in accordance with their rules. These requirements apply to accounts filed after 1 October 2009 and only to accounts under the Companies Act 2006. They do not apply to accounts prepared and delivered under the Companies Act 1985; these follow the previous requirements.

Copies of the balance sheet, directors' report, directors' remuneration report (if part of the accounts delivered to Companies House) must state the name of the person who signed them on behalf of the board under s444 – 448 of the Companies Act 2006. There is no requirement to sign these documents under these sections, but Companies House requires a director to sign the balance sheet (for authentication purposes) when the accounts are delivered.

The company name and number need to appear on at least one of the balance sheet, profit and loss account, directors' report, directors' remuneration report or auditor's report. The usual practice of including the company number on the cover page is no longer sufficient under the new Companies House rules.

The rules require that the accounts delivered must be on white paper and the text must be in black typescript or handwritten in black ink. Care must be taken to ensure that signatures are in black ink too.

Companies House have indicated that they may not reject improperly delivered documents if there is a minor breach of the delivery requirements; for example if the signature is in blue ink, or if the company number is only given on the cover page. However, even if the registrar has accepted and registered the document, this does not mean that the company has strictly complied with the filing requirements, so filing penalties may be incurred at a later date.

## Important changes to the application requirements for an audit qualification

From 1 January 2010, any member wishing to gain the audit qualification (AQ) will need to complete a new audit qualification application form.

This new form will ask you to provide some narrative on the audit experience undertaken, and we therefore believe it would be more convenient for members who do not already hold the audit qualification to apply before the end of this year. There is currently no limit on when you gained your audit experience, as long as the experience is authorised by your employer or previous employer(s), and meets the [requirements for the audit qualification](#).

You may already be eligible for the AQ if you have appropriate experience recorded after the period of your approved training. Alternatively, you may have recorded some of the required experience which you will then need to top up. The amount of audit experience required has not changed, and has not changed for some time.

To check your eligibility, your current audit status or to receive an application form, please contact our audit helpline on +44 (0)1908 248 250, email [postqual@icaew.com](mailto:postqual@icaew.com) or visit [icaew.com/aq](http://icaew.com/aq).

Audit compliance principals and those in charge of training may wish to inform all their staff of this change.

### Important notice for firms registered with the PCAOB

Firms that audit subsidiaries of US listed companies, or UK companies that are listed on a US stock exchange, may be registered with the Public Company Accounting Oversight Board (PCAOB). The PCAOB was formed as part of the changes flowing from the US Sarbanes Oxley Act, itself a reaction to the Enron affair.

Under the registration arrangements, firms registered with the PCAOB must allow it to review their audit working papers and supply other information that the PCAOB may request. However, following the implementation of the EU's statutory audit directive, such arrangements must be on the basis that the PCAOB is deemed by the EU to have adequate arrangements to maintain confidentiality and that there are working arrangements in place between the Professional Oversight Board (POB) and the PCAOB on the basis of reciprocity. At the moment, the Sarbanes Oxley Act does not permit the PCAOB to share its reports and documents with overseas regulators. Although the necessary amendments are included in a bill before the US Congress, the timing of any change is unclear and so, at the moment, the EU is not willing to put forward a measure to allow the PCAOB to review audit files.

A transitional arrangement in the Companies Act 2006 that allowed the PCAOB to access firms' working papers in respect of the audits of financial periods commencing before 6 April 2008 has been revoked.

So, at the moment, access by the PCAOB to a firm's working papers is not allowed until there is a positive adequacy decision by the EU about the PCAOB's confidentiality arrangements and there is an agreement in place between the POB and the PCAOB. Such an agreement would be made under s1253E of the Companies Act 2006. Any such agreements made by the POB with other countries, including the US, will be published on the POB's website ([www.frc.org.uk/pob](http://www.frc.org.uk/pob)). At the moment there are no such agreements.

Firms may be asked by the PCAOB for other information. The issues above relate to a restriction deriving from the directive about audit working papers (or other information related to the audits). Any other request for information should therefore be considered in this light. Clearly, if the information is already in the public domain – such as the names of your audit clients who may be within the PCAOB remit – it is difficult to see any objection to providing the information. Firms may wish to use this as a basis for deciding what information to give to the PCAOB.

### PRODUCED BY PROFESSIONAL STANDARDS

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