



AUDIT NEWS

Issue 49

May 2011

Introduction

In this issue there is an extensive article from the QAD about what they found on audit monitoring visits in 2010.

Clarified ISAs are in force for audits of financial statements for periods ending on or after 15 December 2010 and ICAEW's Clarified ISA Coaching Team has organised a webinar to help you get to grips with common questions.

Although there are changes coming to the application process for the audit qualification, there is still a short time left to apply under the previous arrangements.

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Make sure *Audit News* comes directly to you

As we are now sending *Audit News* by email, please make sure you give us your personal email address so that the newsletter does not sit in a generic email account.

To change your email address on our database, go to 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.

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

Applying for the audit qualification

As you may be aware, the rules will soon change concerning how audit experience must be recorded for applications for the audit qualification (AQ).

From 1 June 2011, **any** audit experience cited in an application for the AQ must include a narrative describing the nature of the experience. This narrative section can be viewed on the AQ application form at www.icaew.com/aq (then click 'How to apply for the AQ').

Under transitional arrangements, however, members have until 31 May 2011 to apply for the AQ without writing an accompanying narrative, providing the required experience has been accumulated and providing it was all gained before 1 January 2010. Any experience acquired between 1 January 2010 and 31 May 2011 that is cited on an application will need a narrative description.

The AQ is free of charge and, once granted, it remains the holder's indefinitely. An individual who holds the AQ will qualify as counting towards the control percentage of an audit registered firm. Individuals are also required to hold the AQ if they want to apply to be able to sign audit reports on behalf of a registered audit firm.

If any individuals in your firm are interested in applying for the AQ, please visit icaew.com/aq for further details.

Helpsheet on client assets

The Financial Services Faculty has recently produced a helpsheet on reporting accountants' work on client money - an area where the FSA has highlighted a variety of challenges. The helpsheet is intended to help reporting accountant practitioners consider the four core principles of the FSA's requirements in respect of client money. It also acts as a reminder that the rules and their application are complex and all aspects will require appropriate focus and attention.

The helpsheet is available from the faculty's [website](#). In addition, articles on client asset issues appeared in the November 2010 and February 2011 issues of *FS Focus*.

Filing accounts in Ireland

The Irish Companies Registration Office (CRO) in Dublin is responsible for the filing of accounts submitted by companies and it is concerned about audited accounts that have not been audited by a registered auditor. It has identified the following problems.

- Accountants who sign audit reports and describe themselves as 'auditors and accountants' although they were not on the register of auditors.
- Cases where the names of legitimate auditors were forged and used on filed accounts, including one case in which an accountant used the names of three different registered auditors on the accounts of 22 companies.
- A number of cases in which accountants carried out and signed audits as a favour to a client who could not afford to pay a registered auditor.
- One case in which a company secretary downloaded a template of an auditor's report from the CRO website and added the name of a registered auditor.

It is illegal to pretend to be a registered auditor when not and cases are routinely referred to the Office of the Director of Corporate Enforcement (ODCE). The CRO understands that up to 40% of enforcement cases currently being handled by the ODCE relate to the issues of unregistered auditors. In some cases the CRO has demanded that companies that have used non-registered auditors send in their accounts afresh.

Previously, the CRO undertook random sampling of audit reports filed with the CRO to check that the reports had been legitimately signed by a registered auditor. From 1 April, however, after

discussions with some of the accountancy bodies who register auditors in Ireland, the CRO has adapted a more systematic approach. Form B1 (the company's annual return) now requires the company to add the unique registration number of the registered auditor. This is your firm's C00 number, prefixed with EW to denote an auditor registered by the ICAEW. A company can either obtain this number from you, as its auditor, or from the Public Register of Statutory Auditors at cro.ie/ena/online-services-auditor-search.aspx.

Each time a B1 form includes an auditor registration number, an email will be sent to the auditor whose number is provided. The auditor may wish to check the email to satisfy him or herself that he/she is the auditor to that company. If the auditor is not the auditor to the company, the CRO email will detail how the auditor can raise concerns about the anomalous use of the registration number on the form.

The email address that will be used is that of the audit compliance principal but this will not be visible on the public register and will only be used for this purpose by the CRO.

In this way, the CRO hopes to stop companies and others filing accounts that claim to be audited when they are not.

The Audit Registration Committee needs you

The Audit Registration Committee is now seeking two chartered accountant sole practitioner members. Ideally, the members will be ICAEW audit registered and have significant and current practical experience of auditing.

Meetings are usually held monthly at Chartered Accountants' Hall in London and normally last about half a day. Time is needed to read the agenda papers before each meeting, which can take up to three hours.

If you would like further details on the application process, please email fiona.lancaster@icaew.com

For details on other current quasi judicial vacancies please visit icaew.com/en/about-icaew/who-we-are/committees/professional-standards-committees.

Clarified ISAs – your top 15 questions answered by webinar!

The clarified ISAs apply to audits of accounting periods ending on or after 15 December 2010. As many firms are now starting to do their first audits under the clarified ISAs, ICAEW's Clarified ISA Coaching Team has organised a webinar designed to assist you in carrying out these audits by providing practical solutions to the common questions you're asking on implementing the new ISAs.

The webinar is presented by the three members of the Clarified ISA Coaching team, Catherine Woodthorpe, Graham Bale and John O'Donnell, who provide clarified ISA file reviews and coaching to firms on how to update their procedures to meet the requirements of the clarified ISAs. They will highlight the common questions on clarified ISAs raised by practitioners and suggest practical ways to address them.

The webinar is aimed at responsible individuals and audit staff and there is no charge. It will be held online on Wednesday 18 May 2011, 13:00 - 14:00. To register [click here](#). If you have any questions, please email emmy.stone@icaew.com

icaew.com/regulations is live!

ICAEW's regulations, standards and guidance are now available from a single area of the website, icaew.com/regulations. It includes regulations relating to work in audit, investment business and insolvency as well as material previously published in the *Members' Handbook*.

Features

- The site allows users to access up-to-the-minute content as soon as it becomes available.
- Topic buttons and an A-Z list clearly signpost relevant material.
- Defined terms are highlighted with links to their definitions.

icaew.com/regulations replaces the *Members' Handbook* and gives users access to the most up-to-date information and support available. We will continue to develop the section so you can find the information you need quickly and easily.

Audit monitoring in 2010

This is a summary of our audit monitoring activities in 2010. QAD reviewers met auditors from over 750 audit firms which gave our reviewers great insights into the current challenges and issues facing firms of all sizes. The report highlights the areas where firms can have difficulties and so should help all firms maintain and improve audit quality.

Our work

The Companies Act 2006 requires recognised supervisory bodies to license and monitor statutory audit. ICAEW is the largest such body in the UK. We currently register just under 4,000 audit firms. These range from sole practitioners with few or no staff to all the Big 4, and 19 of the top-20 audit firms. Every year, our 30 audit reviewers visit over 750 audit firms and review over 1,500 audits. We focus on the most risky and difficult areas of an audit so that we can thoroughly assess the quality of the important audit judgements.

We are responsible for monitoring firm-wide procedures at all our firms except for the very largest firms where this responsibility rests with the Audit Inspection Unit (AIU) of the Financial Reporting Council (FRC) (www.frc.org.uk/pob/audit/). We monitor the quality of individual audits at all our firms but do not review audits of fully listed clients and others designated as major public interest clients, as these fall within the AIU's remit. Specifically, the review of audits of banks (which have been a subject of intense public debate) falls to the AIU and not to ICAEW.

Audit in 2010

Audit made the headlines in 2010 because the aftermath of the 2007/08 financial meltdown raised questions about the role of auditors and the value of audit. During the year, the AIU published reports on its 2009/10 inspections of individual audit firms and smaller firms (frc.org.uk/pob). These reports highlighted a number of challenges for the audit profession.

Our own findings show that firms of all sizes are capable of delivering high quality audits, although complex audits can be a challenge for any firm and we recognise all of the issues that the AIU raised.

We visited 755 audit firms in 2010. In the majority of cases we concluded that firms' audit work was satisfactory. We see many examples of firms — large and small — that invest heavily in audit procedures and training for their staff and produce very good audits. Our firms conduct large numbers of audits for companies that have chosen not to take audit exemption. We expect the

same high standards for any audit and it is clear that many UK businesses value the robust challenge and assurance of a statutory audit.

In some cases, however, firms do need to make improvements to the standard of their work. Our objective is to help firms improve. We identify the root cause of any weaknesses in audit work and discuss steps that the firm can take to resolve the issues. Firms may provide us with further information to show that their actions have been effective, and we will offer support where we can. Nevertheless, in very serious cases we have to recommend that a firm's audit registration be withdrawn.

This report includes some of the main areas in which audit firms need to improve. It also includes details of a number of initiatives across ICAEW to support our firms.

The future

Changes over the next few years are likely to have a significant impact on the profession. The introduction of the Financial Reporting Standard for Medium-sized Entities (FRSME) will require additional training resource in all but the largest firms. The European Commission (EC) green paper on the future of audit, published in October 2010, is likely to result in some changes, although the extent of these is not yet clear. You can read ICAEW's response at icaew.com/representations

As the largest professional accountancy body in Europe and the largest audit regulator in the UK, ICAEW seeks to influence the direction of audit for the benefit of the public at large and the profession. We will continue to keep our audit firms updated on developments, and encourage their input into our responses to consultations from government and other bodies.

Supporting our firms

Clarified International Standards on Auditing (UK and Ireland) (Clarified ISAs) apply for accounting periods that ended on or after 15 December 2010 and it is more important than ever that firms keep abreast of developments and maintain audit quality in the face of change. Many firms say that six years (our standard visit cycle) is too long a gap between visits. With this in mind, we have introduced new touch points to enhance the contact we have with our audit registered firms.

- In autumn 2010 we wrote to audit firms about the clarified ISAs and provided information about sources of help and guidance. We asked some firms to tell us about their plans for training and for updating their audit systems.
- We are now contacting some firms between visits to discuss how they are progressing with audit compliance. This is a good opportunity for firms to discuss any concerns they may have and we will point firms in the direction of useful assistance if appropriate.

We will also run a series of roadshows in 2011 that will provide helpful guidance and advice on how to improve audit quality, including:

- hints and tips on clarified ISAs and the clarified standard on quality control (ISQC1);
- our monitoring experiences and the reasons why some firms sometimes struggle to maintain standards; and
- sharing good audit approaches to more challenging areas that we see at audit firms.

These roadshows will also give firms, particularly those who do not have regular contact with external sources such as training providers, a chance to ask questions. If you're interested in hearing more, please email QADclarity@icaew.com

Audit quality

Although we consider that, in most cases, our firms' audit work is satisfactory, there are areas of weakness in some audits. To improve audit quality, here are some key areas on which audit firms should focus.

Make careful judgements and document them

The quality of judgements made by the audit team is critical to any audit. We will always challenge audit judgements where there is insufficient or conflicting information on the audit files and where we cannot understand how the audit team reached their conclusion.

Difficult judgements are often finally made through discussion between the audit partner (or other senior members of the audit team), and client management. In the best audit files we review, the records of this work provide persuasive evidence, and the judgements and conclusions are clearly set out in reports to those charged with governance.

Here are some examples of common but potentially difficult judgements where we cannot always understand the conclusions on the audit file.

Assessment of going concern

There may be no history of liquidity problems but shortage of credit from banks has introduced risks that the audit client has never faced before, and these need to be evaluated.

Conclusions on impairment

The input data and assumptions used in a client's or an expert's financial models may be difficult to audit and small changes to a discount rate or growth factor could result in the recognition of a significant impairment charge.

Reliance on other auditors in group audits

Auditors of UK companies can find themselves responsible for the audit of a business with most of its activities on the other side of the world. These auditors must make judgements about how much involvement they should have in the planning and audit work in those overseas entities, and the competence of another firm which may operate in a very different regulatory environment.

We will explore challenging audit judgements further at the audit roadshows in 2011.

Assess risk

Most firms understand their clients and the related audit risks. Nevertheless, they often do not document this knowledge properly using the framework set out in ISA 315 and ISA 240 (the risk and fraud ISAs).

Where the risk assessment process is weak, it can be because engagement partners and senior audit staff had little involvement at the planning stage of the audit. Proper leadership and direction of the audit is a key requirement of ISA 220. There are clear benefits to the audit engagement if the senior members of the audit team share their knowledge of both the client and the business environment with more junior staff.

Time invested at the planning stage results in more effective and efficient audits. Good risk assessment can have added benefits for the client by identifying areas of weaknesses in its key controls and risks that it may not otherwise have considered. This is just as important in an owner-managed business as in a large multinational.

Our review of the financial statements sometimes highlights potential risk areas that the firm has not clearly identified and addressed in the audit, for example:

- warranty provisions;
- material business acquisitions; and
- the use of restricted funds in a charity.

Lack of effective risk assessment can also mean that firms do extensive audit work on low risk areas and this affects efficiency.

Gather the right audit evidence and record it

Although we see a lot of good and well documented audit work, many of the issues we raise on audit files relate to the quality of audit evidence and gaps in documentation.

Sometimes the audit work on file does not provide enough evidence to support the view that account balances are materially correct. These are the kinds of thing we see.

Design of audit tests

Evidence of the existence of fixed assets is obtained through testing of additions and disposals but without testing any items brought forward from the previous year.

Population of transactions used for sampling

The audit firm only selects items sold post year end to test net realisable value of stock.

Weakness in substantive analytical procedures

Audit work relies on substantive analytical procedures where:

- it is not possible to develop sufficiently precise expectations; or
- balances are simply compared to prior year and significant variances are discussed with management without corroboration.

Knowledge of potential related parties

Sometimes the audit of related parties focuses only on those transactions identified by management. Firms need to demonstrate that they have obtained information about all related parties with the assistance of management so that the audit team can be alert to undisclosed transactions.

Assessment of experts

Although audit evidence may include reports from experts, there is sometimes little indication that the audit team has considered the qualifications of the expert, the scope of the report, key assumptions and underlying data.

Incomplete documentation

Good audit documentation is a challenge. Firms can often provide additional explanations to show us they have obtained appropriate audit evidence, but the very fact that we need to ask the question often means that the work is not documented well enough. It may also indicate that the firm's review processes have not been as effective as they should have been; especially the final engagement partner review.

Show that you act ethically

UK statutory auditors should follow the APB Ethical Standards which set out a threats and safeguards approach to auditor independence.

Firms do generally act in accordance with the spirit of the Ethical Standards, but they sometimes take on work when they shouldn't and sometimes fail to identify or adequately safeguard potential threats to their independence. For example:

- we still occasionally see firms acting as the auditor and company secretary to a client;
- some small audit firms with listed clients do not have an engagement quality control review (EQCR) and can overlook the partner and EQCR rotation requirements for listed entities;
- firms may fail to identify that their PLUS market audit client is listed, and that the requirements of ethical and auditing standards which relate to listed companies must be applied;
- fee dependency issues for audit clients that generate significant fee income for the firm are not always properly addressed in accordance with Ethical Standard 4;
- audit partners who have acted for unlisted clients for over 10 years need to take certain steps to comply with Ethical Standard 3; the safeguards do not have to be onerous but should be properly thought through and implemented; and
- we still find instances where firms have provided prohibited accounting or tax services to their listed clients.

Documentation

More generally, we quite often find that firms do not fully document their consideration of threats and safeguards. In the case of non-audit services, for example, it may not be clear:

- that all non-audit services have been identified;
- which particular threats arise (eg, self-review or management threats);
- what, if any, safeguards the firm has implemented; or
- whether these details have been communicated to those charged with governance, as required.

Smaller audits

Firms with small audits may apply the Provisions Available to Small Entities (PASE). The PASE allows firms to provide some non-audit services to audit clients without safeguards, subject to certain other requirements. Nevertheless, we find that firms applying the PASE don't always understand how it should work, and some firms don't realise they can take advantage of these simplified provisions.

Firms that have smaller audits should therefore read the PASE carefully to help them make the most effective use of it.

Maintain appropriate audit procedures

ICAEW's audit regulations and ISQC1 require all audit firms to have policies and procedures across certain key areas as a framework for ensuring good quality audit work.

Generally we find that our audit firms have procedures suitable for their size and the nature of their audits. Our most common finding is that, although firms can explain their approach and we can see that suitable procedures are applied in practice, their policies and procedures are not fully documented as required by ISQC1.

There are a few specific areas of ISQC1 where some firms need to enhance their procedures.

Evaluate cold file review findings

Firms should properly evaluate the findings from their annual cold file reviews and implement an action plan to address weaknesses quickly. Firms that grade the results of their file reviews may find it easier to monitor their progress year on year.

EQCR procedures

An EQCR is required for all listed audits. Firms must ensure that the individuals who perform this review have enough authority and relevant experience for the role, and are involved at appropriate stages of the audit. EQCRs are often routinely implemented in larger firms for new audit clients, modified audit reports and other risk criteria. These policies that exceed the minimum requirements are very good practice.

Audit training

Regular audit training is essential, and even relatively small audit firms may now have specialist teams to concentrate on audit assignments. Training on proprietary audit systems is also important. Firms sometimes struggle when they switch audit systems, particularly to a computer-based system, without any training from the software provider.

Visit outcomes

Overview

	2010
Visits closed without follow-up action	543 (72%)
Further information requested from firm	132 (17%)
Detailed report to Audit Registration Committee	80 (11%)
Total	755 (100%)

Visits closed without follow-up action

These are visits where the firms produce good quality audit work; if we identify areas for improvement, we are confident the firm can address them easily. The vast majority of our visits fall into this category.

Further information requested from firm

These are cases where some follow-up action is needed to monitor progress and where firms have offered to provide the relevant information. Examples might be the results of subsequent audit compliance reviews, a plan for future training courses or updated audit procedures to address one or more elements of ISQC1.

Detailed report to Audit Registration Committee

If we identify serious issues, we write a detailed report for the Audit Registration Committee (ARC) so that it can consider what action to take. Our detailed reports are not always because of poor audit work; they may also include issues relating to the firm's eligibility to be a registered auditor, and control of an audit firm.

Actions could be to:

- impose conditions and restrictions on the firm's audit registration;
- withdraw audit registration (in the most serious cases); or
- offer a regulatory penalty or refer the firm to the Professional Conduct Department for further investigation.

An example of a condition imposed on a firm doing poor quality audit work would be to require external hot reviews of all audits and for the firm to submit the results. If the ARC has doubts about the firm's progress, it may ask the firm to pay for the cost of a follow-up visit.

Firms can be restricted from taking on new audit clients or from acting as an audit reviewer to other firms. The ARC gives firms a chance to improve and wants them to do so, but if conditions and restrictions do not work, it may ultimately withdraw a firm's audit registration.

The following describes the actions taken by the ARC during 2010; this includes some visits carried out in 2009.

	2010
Registration withdrawn	25
Firms where conditions and restrictions imposed	35
Firms where conditions imposed	19
Voluntary withdrawal accepted after adverse QAD visit	10

The ARC may offer regulatory penalties for issues such as misleading information on annual returns, or failure to notify ICAEW of significant changes in the firm. It is therefore important for firms to pay proper attention to these routine but important matters.

Working with the AIU

There is a degree of overlap in our work and we liaise closely with the AIU inspectors. Before a report is finalised, the AIU reviews our reports on audit firms with audits within their remit so that they can have confidence in the scope of our work and our conclusions on firm-wide audit procedures.

The ARC also receives reports on all AIU visits to our audit firms. Wherever possible, we try to coordinate our visits with the AIU so that the reports from both regulators on an audit firm can be considered together. If the AIU has concerns about audit work at a firm, they can recommend that ARC take regulatory action. In all cases, the ARC has taken up these recommendations. In some cases, the ARC has taken additional action — such as restricting the firm from taking on new audit appointments — until the underlying issues have been resolved.

About us

Audit reviewers

The Quality Assurance Department (QAD) carries out audit monitoring alongside its other monitoring activities. Our reviewers are all chartered accountants with considerable experience at the sharp end of audit.

We continually strive to develop our monitoring processes and invest considerable time in ensuring that our systems and procedures remain fit for purpose.

We work closely with other parts of ICAEW, especially the Audit and Assurance Faculty and the Financial Reporting Faculty. We provide feedback on auditing and financial reporting issues that we find on visits, we offer comments on proposed technical releases, and have input into the content of faculty roadshows.

Audit visits

We visit all our audit firms at least once every six years. We visit any firm with a listed audit client at least once every three years and see the largest firms annually. We also take the opportunity to discuss audit quality with firms during our Practice Assurance visits.

Oversight of our work

It is important that our activities are themselves monitored to ensure that our audit visits and outcomes are of the highest standard. In addition to comprehensive internal reviews, ICAEW is overseen by the Professional Oversight Board (POB), part of the FRC. The FRC is also responsible for accounting standards and the rules on how to conduct an audit.

ICAEW receives annual inspections from the POB. These inspections cover all aspects of ICAEW's activities as a recognised supervisory body and the content varies each year. The POB have never raised a significant concern about our work but we value their recommendations.

We believe that the audit regulation of ICAEW firms, combining strong input from both ourselves and the AIU with appropriate oversight by the POB, results in robust and efficient audit monitoring that protects both the public interest and the credibility of the UK auditing profession.

Help and support from ICAEW

Several key initiatives are now underway across ICAEW to assist transition to clarified ISAs.

- ICAEW's website includes a significant amount of information about clarified ISAs. ICAEW members and audit affiliates can access these through the web pages on working in the regulated area of audit (icaew.com/auditnews).
- A web page, isaaudit2010.com, is dedicated to the clarified ISAs and includes links to the websites of the International Auditing and Assurance Standards Board (IAASB), the International Federation of Accountants (IFAC), the Auditing Practices Board (APB) and the European Federation of Accountants (FEE).
- Members of the Audit and Assurance Faculty can access electronic copies of the monthly faculty newsletter, *Audit and Beyond*, which provides valuable content on best practice and topical issues within the profession (icaew.com/aaf).
- Clarified ISA coaching is a service provided by the Practice Support Service. It is a bespoke service for firms that need to update their audit methodologies for the clarified ISAs. Visit icaew.com/clarity for details.

Every six months, ICAEW produces an aide memoire for continuing professional development (icaew.com/auditnews) which includes key technical changes and developments over the previous 12 months. This is relevant to auditors and those who prepare financial statements.

If you would like to find out more about ICAEW's help and support for the audit profession, please visit icaew.com/technical/audit-and-assurance.

Reminders from the Audit Registration Committee

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

Compliance with conditions and/or restrictions

The ARC takes very seriously firms who fail to comply with conditions and/or restrictions attached to their audit registration or who fail to honour undertakings or assurances they have given to ICAEW, either directly to the committee or to a member of staff such as a QAD reviewer.

As an example, the ARC may require a firm to have an external review of audit files but these are not done when required or promised by the firm. The reviews may be hot (ie, before the audit report is signed) or cold reviews (ie, after the audit report is signed). ICAEW has access to a database of Companies House records. This enables us to check if a firm has filed audited financial statements at Companies House but has not sent in an external review when one was required.

The ARC will take appropriate action against any firm that does not fulfil its obligations. Depending on the seriousness of the particular circumstances, this could be in the form of the withdrawal of a firm's audit registration and/or a regulatory penalty. In the more serious cases, the ARC may consider referring the firm and/or the individual member for disciplinary investigation.

If you are experiencing difficulties in meeting conditions imposed or undertakings given, please contact the audit regulation section on +44(0)1908 546 309 or +44(0)1908 546 311 as soon as any problem becomes apparent.

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 to sign audit reports on behalf of their firm, they need to apply for RI status and wait until their application has been approved.

The ARC also sees instances when an individual — who was an RI in firm A — leaves and joins firm B, assuming the RI status is transferrable 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 (see [Audit News issue 44](#) 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 the website. We have also produced a [note](#) to help firms work out when a RI application is needed and this also sets out when other forms are needed.

If you are still unclear, please call regulatory support on +44 (0)1908 546 302, or email regulatory.support@icaew.com

Annual returns

Notification of changes within the firm

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

Audit regulation 2.11 requires you to notify ICAEW in writing of any changes to a practice 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 ICAEW 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 also probably means that a firm's public record is 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 ARC continues to see instances 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 review results were documented.

Annual returns that are not completed correctly can have a serious impact on ICAEW'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 ICAEW's *Guidance on sentencing*. The starting point for inadvertent errors and inaccurate statements in a firm's annual return is £2,500. During 2010 the ARC offered 15 regulatory penalties, averaging £2,600 each, to firms in respect of errors made on their annual returns.

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

Audit at the crossroads?

The audit profession is going through a challenging period. The European Commission has asked some difficult questions in its green paper on the role of the auditor, concentration and choice in the external audit market, governance and independence of auditors, supervision and simplification for SME audit. The UK government is keen to reduce the regulatory burden it perceives of producing and auditing accounts for SMEs.

On the SME audit threshold, companies with not more than 50 employees are likely to be exempted from a statutory audit if they also satisfy one of the other two tests: turnover below the current threshold of £6.5 million or a balance sheet total of no more than £3.26 million. Currently they have to meet both of these criteria. With regard to exempting medium-sized businesses from audit, this is currently an aspiration from government. There are a number of barriers that need to be overcome, not least amending EU law and we are currently some way from seeing detailed proposals.

Regulators are also finding the post-crisis world challenging with pressures to improve audit quality (for example around scepticism) and possible changes to FRC powers and structure.

There are calls for more innovation from the profession. There has been much focus on the future of audit from policy makers, regulators and the CCAB bodies in recent months.

ICAEW is keen to hear the views of practitioners from all sizes of firms and will be holding an **event** at Chartered Accountants' Hall on 16 May 2011 which will also be webcast. Martyn Jones, ICAEW Vice-president elect will speak about the issues facing the profession and Robert Hodgkinson, Executive Director, Technical Strategy, will be outlining what ICAEW has done and will be doing.

Audit and Assurance Roadshow - topical issues for today's SME practitioner

This roadshow will consider a number of topical issues of interest to practitioners. The topics have been identified from comments and observations made by practitioners, so there should be something for everyone.

Accounting for service charges has proved to be very topical. ICAEW issued its draft guidance in October 2010 and this is likely to be in its final version by the time of the roadshow. The event will remind delegates of the legal requirements, the possibilities that arise, the reporting requirements, risk management issues, and practical considerations. It appears likely that many companies in receipt of service charges will need to amend their financial statements to reflect the requirements.

According to the QAD, some practitioners still misunderstand the requirements for external scrutiny and reporting for charities and pension schemes. The roadshow will include a summary of the requirements and discuss the practical aspects in both these areas. The introduction of the clarity ISAs will also require some additional considerations. The roadshow will draw on revised pronouncements from the APB and guidance issued by ICAEW.

XBRL tagging will be a requirement in 2011 for all financial statements submitted to HMRC. With this requirement in place, it is likely that more companies and LLPs will use the ability to file electronically at Companies House. The roadshow will consider this from the aspect of practitioners' responsibilities in these circumstances.

Grants can be a 'practice management and risk issue' for some firms. The requirement to confirm certain information to third parties can give rise to risk management issues. The roadshow will look at this in the context of reporting to third parties.

Dates, times and venues

Monday 9 May 2011	09:00 - 12:30	Novotel Hotel Southampton
Wednesday 11 May 2011	13:30 - 17:00	Manchester City Football Club
Thursday 12 May 2011	09:00 - 12:30	Everton Football Club
Friday 13 May 2011	09:00 - 12:30	Newcastle Racecourse
Monday 16 May 2011	09:00 - 12:30	The Riverside Conference Centre, 20 Gipsy Lane, Luton
Tuesday 24 May 2011	13:30 - 17:00	Chartered Accountants' Hall, London
Thursday 26 May 2011	09:00 - 12:30	Birmingham City Football Club
Monday 6 June 2011	09:00 - 12:30	Woodbury Park Hotel, Woodbury Castle, Devon

Wednesday 8 June 2011	08:30 - 12:00	Cedar Court Hotel, Denby Dale Road, Wakefield
Wednesday 8 June 2011	14:00 - 17:30	Derbyshire County Cricket Club
Friday 10 June 2011	09:00 - 12:30	The West Wing at Ickworth House, Horringer, Bury St. Edmunds
Friday 17 June 2011	09:00 - 12:30	Hilton Maidstone, Bearsted Road, Weaving, Maidstone
Wednesday 22 June 2011	13:30 - 17:00	Chartered Accountants' Hall, London
Friday 24 June 2011	09:00 - 12:30	Chartered Accountants' Hall, London
Monday 27 June 2011	08:30 - 12:00	Copthorne Hotel, Culverhouse Cross, Cardiff
Monday 27 June 2011	14:00 - 17:30	Bristol Golf Club, St. Swithins Park, Almondsbury, Bristol