



# AUDIT NEWS

## Introduction

Welcome to Audit News 53, your regulatory update containing the latest technical guidance and best practice advice.

This issue examines the changes made to the Audit Regulations for the FRC's Auditor Regulatory Sanctions Procedure and draws attention to the Audit Quality Review team's guidance on the audit of 'letterbox' companies.

As regards audit reports, there's a summary of recent changes under the law and FRC obligations, as well as a reminder of the requirements for the signature of audit reports, and guidance as it relates to the Crown Dependencies.

Finally, there's a summary of how ICAEW is approaching access to the audit profession under the government's social mobility agenda.

Please share this issue with colleagues involved in audit work.

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## Changes to the audit regulations - November 2013

**The Audit Regulations have been updated with effect from 11 November 2013 to take account of the Financial Reporting Council's (FRC) Auditor Regulatory Sanctions Procedure (ARSP) which is being published simultaneously.**

The changes follow from the FRC governance review in October 2011, the agreed elements of which were enacted by Statutory Instrument (SI) 1741 in July 2012. Under article 5 of the SI, the FRC was given the power to determine sanctions against audit firms directly without reference to the recognised supervisory bodies. A draft ARSP was issued in December 2012 to set out how this might apply in practice and, in particular, to explain the appeal mechanisms associated with it.

The sanctions regime applies to those firms that are the subject of inspections by the Audit Quality Review team and, as these are firms that carry out significant numbers of major audits, this policy only affects a small number of firms that are registered for audit with ICAEW.

Although ICAEW has been asked to apply the sanctions by the FRC, we are doing this on behalf of the FRC and not as part of the audit regulations. The regulations have therefore been amended to ring fence this particular activity and establish how they operate alongside the procedures operated by ICAEW.

A key part of the ARSP is the appeal mechanism which enables firms to challenge any sanction that the FRC may have applied. This is separate to the appeals system set out in Chapters 8 to 9 and therefore the introduction to those chapters has been amplified to reinforce this point. In addition, regulations that address appeals against sanctions have been ring fenced to decisions of the Audit Registration Committee.

The sanctions determined by the FRC are to be treated as issued by ICAEW itself. Chapter 7 sets out how this will apply in practice, and there are new regulations 7.00 and 7.00A.

Regulations 7.02, 7.03 and 7.06 have been modified to accommodate FRC findings, and to indicate how the transition between regulatory regimes might be handled. This could arise, for example, if a firm ceases handling major audits during a sanction period.

As ICAEW is charged with implementing the sanctions, it follows that the enforcement regulations of the Audit Regulations continue to apply; so, for example, 7.03f has been amended and 7.03j added to enable the Audit Registration Committee to apply its own sanctions for non-compliance with sanctions levied under the ARSP. Interestingly, these particular sanctions can be appealed against using ICAEW's appeals procedure, provided they are not challenging the underlying FRC decision where the ARSP would apply.

We have also taken the opportunity to amend the names of bodies that have changed and to add a clarifying paragraph around continuing professional development.

- The Professional Oversight Board has been changed to the Financial Reporting Council.
- The Audit Inspection Unit is now the Audit Quality Review team.
- The Financial Services Authority is now the Financial Conduct Authority.

In the case of CPD, guidance has been added to regulation 3.17 to the effect that where individuals are registered themselves with one regulatory body, but their firms with another, then the most demanding CPD regulations of either body apply. This is mainly to address the impact of the Professional Qualifications Directive 2013 where overseas CPD requirements may be less comprehensive than those of the UK.

## **Reminders from the Audit Registration Committee**

**In Audit News 45 we gave some guidance on how audit reports should be signed to reflect the requirements of s503 of the Companies Act 2006.**

### **Signing audit reports**

We explained that the following requirements must be met when signing the auditor's report provided to the company on completion of the audit.

- The name of the responsible individual (RI) in charge of the audit must be given.
- The audit report has to be signed in his or her name, not in the name of the firm.
- The printed name of the RI must be included in the signature block in the format it appears on the public audit register, ie, first name, surname.
- The RI is also known as the 'senior statutory auditor' and this phrase must also be added to the signature block.
- The firm's name must be stated in the signature block as it appears on the register.
- The words 'Statutory Auditor(s)' must also be included after the name of the firm.

Although these requirements have been in place for accounting periods starting after 6 April 2008 (for accounts filed at Companies House after 1 October 2009), we still see a large number of incorrect audit reports with the following errors:

- the name of the RI is omitted;
- the firm is wrongly described as 'Registered Auditor(s)' rather than 'Statutory Auditor(s)';  
and

- the audit report has been signed in the name of the firm, rather than in the name of the RI.

To date, the Audit Registration Committee (ARC) has not taken regulatory action over these matters. Nevertheless, the signing requirements have been in place for several years, and the ARC expects that, by now, firms should be familiar with the requirements.

In future, any cases where the audit report is not signed in the name of the RI may be reported to the ARC for it to consider whether any regulatory action is necessary. You should therefore ensure that all RIs in your firm are fully aware of the signing requirements as this is an area that we will look at on your firm's next visit.

### **Signing audit reports for market traded companies in the Crown Dependencies**

We explained in Audit News 47 that, from 5 April 2010, new requirements applied for firms that audit companies incorporated in one of the Crown Dependencies that have 'transferable securities' admitted to trading on a 'regulated market' in the EU (called 'market traded companies').

The **arrangements for firms that audit market traded companies** are explained in a note and there is a **common set of audit rules** for firms in the Crown Dependencies that audit these companies, based on the Audit Regulations.

The rules for signing audit reports of market traded companies state that:

'Save as otherwise authorised by the Companies Law in force at the time of signing the audit report, any audit report must:

- state the name of the RI who was in charge of the audit and be signed by this person in his or her own name; and
- state the name of the firm as it appears in the register.'

During 2013, the ARC was made aware of a number of audit reports for market traded companies that did not include the name of the RI and/or were not signed by the RI in his or her own name.

The committee recognises that the regime for the audits of market traded companies is relatively new and that it has not previously issued any guidance in this area. It therefore decided not to take any regulatory action in these cases.

The committee nevertheless considers that it's important for firms to ensure that audit reports are properly signed. If any future instances are brought to the ARC's attention, it will consider whether regulatory action, by way of published regulatory penalty, is appropriate.

If you're in any doubt about the format for signing an audit report of a market traded company, you should contact ICAEW or the registrar in the relevant Crown Dependency for further guidance.

You should note that the signature only needs to be hand written for at least one copy supplied to the company. Printed versions that do not have a written signature and that contain the name of the RI are fine for other purposes, including the filing at Companies House under sections 441 to 447 of the Companies Act 2006.

### **Audits of 'letterbox' companies**

**The Audit Quality Review (AQR) team's annual report on its 2012/13 inspections highlights some concerns relating to the audit of what it has called 'letterbox' companies.**

AQR's concerns relate to the audit of companies or groups that have little more than a registered office or correspondence address in their country of registration, with general, financial and corporate management and all economic activity being located elsewhere. In such situations, the company or group auditor is usually based in the country of legal registration of the company, rather than where management is based, and the majority of the work is often performed by component auditors. AQR has identified a number of cases where the auditor who signs the company or the group audit report is conducting the audit without sufficient involvement.

Andrew Jones, head of AQR, has written a **letter to the audit firms** for which AQR has primary inspection responsibility to draw attention to this topic, and to set out the relevant parts of the auditing standards and how they apply to letterbox companies. This is a helpful summary of the

relevant considerations and we strongly recommend that you refer to it if your firm has any audits of this nature, whether or not they are within AQR scope.

## **Develop the next generation of audit talent**

ICAEW is committed to opening up access to the accountancy and finance profession and we continue to work with various partners to ensure a variety of entry routes to help you attract, train and retain talented individuals to audit.

Here is an overview of the increasing **entry routes into the audit profession**.

### **Routes into the audit profession**

#### **ICAEW Certificate in Finance, Accounting and Business (ICAEW CFAB)**

Suitable for school leavers, graduates or non-finance staff, ICAEW CFAB teaches fundamental knowledge and practical skills in finance, business and accounting. Achievable in as little as 12 months, it's a standalone qualification or can serve as a route towards the ACA.

#### **Higher Apprenticeship in Assurance/Audit or Taxation**

Tuition for the Higher Apprenticeship in Assurance/Audit or Taxation is usually 100% government funded for school leavers in England and Wales. Over 12 to 24 months your students could achieve ICAEW CFAB as part of the Apprenticeship, which can then be a route to the ACA.

#### **School leavers**

Attract talented school leavers who are focused on a career as a chartered accountant at an early age to join your three to five year training programme.

#### **Graduates of any discipline**

Recruit ambitious graduates from any degree discipline straight onto a career path as an ICAEW Chartered Accountant to join your three-four year training programme.

#### **Graduates from our strategic degree courses**

Hire a graduate from one of our strategic partner universities and they'll come to you with a relevant degree and some of the ACA exams already completed.

#### **AAT**

For those who are studying for, or have completed AAT Level 4, there is a fast track route to the ACA qualification.

### **Recruitment support**

If you have audit training vacancies to fill, we can help you to meet potential students and promote your organisation at schools and universities. We host presentation and networking sessions for potential students, facilitate interactive business skills sessions, provide posters and copies of our recruitment brochures, which explain the ACA to your potential students. We can also promote your audit training vacancies to our register of interested potential students using bespoke emails, social media and via **Training Vacancies**.

### **How to train ACA students**

More than 2,850 different types and sizes of organisations around the world already benefit by offering ACA training. To train ACA students, **you** or **your organisation** will need to be authorised. Authorisation is a simple process that is free of charge and fast.

Find out more:

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## Changes to the wording of audit reports

Firms need to be careful to ensure that the wording of their audit reports picks up recent changes to the law and FRC requirements.

In particular, there are the new **Companies Act 2006 requirements covering the strategic report** (for financial years ending on or after 30 September 2013), and for periods commencing on or after 1 October 2012 the scope of the audit (see the **revised ISA (UK and Ireland) 700** paragraph 16) and the information needed for entities applying the UK Corporate Governance Code (see **revised ISA (UK and Ireland) 700** paragraphs 19A, 19B and 19C).

ICAEW's **Audit and Assurance Faculty** is covering the changes in questions and answers in the December 2013/January 2014 issue of the faculty magazine **Audit & Beyond**.

The FRC, however, has not updated its audit reports **Bulletin 2010/2** for these changes and currently has no immediate plans to do so.

When drafting audit reports, firms should therefore take care not to simply rely on the FRC audit reports Bulletin.