



AUDIT NEWS

Introduction

Welcome to Audit News 57, your regulatory update containing the latest technical guidance and best practice advice. Please share this issue with colleagues involved in audit work.

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Changes to the Audit Regulations – 17 June 2016

The Audit Regulations have been updated with effect from 17 June 2016 to take account of the changes in audit regulation initiated by the EU Audit Regulation and Directive of 2014. These were transposed into UK law last week by the Statutory Auditors and Third Country Auditors Regulations (SATCAR).

The changes apply across a whole range of audit activity in the shape of eligibility criteria, accounting standards, ethical standards and governance criteria. These are commented on in other articles in this edition of *Audit News*.

However they also include a reshaping of audit oversight and the enforcement process in the UK, and this restructure has required a number of changes in the audit regulations. The legislation has taken the form of a short new legislation in its own right which recognises the FRC as the ultimate competent authority. It also makes a number of amendments to the Companies Act 2006 and Schedule 10 which sets out the role and obligations of the recognised supervisory bodies (RSBs) including ICAEW.

The new structure transfers the responsibility for the performance of the tasks associated with audit regulation (including licensing, monitoring, and enforcement) to the FRC. In turn it delegates these tasks to the RSBs to the extent it is permitted and wishes to do so. In the case of inspection

and enforcement, the EU Audit Regulation and the Companies Act changes do not permit this role to be delegated where it relates to audit firms carrying out the audits of public interest entities (PIE) in respect of those audits. The FRC under their delegation powers have chosen to retain with the PIE audits a number of AIM and ISDX audits where the entities concerned have a capitalisation of more than €200m.

In practice most firms will see very little change in process from the current regime, but in reality the FRC will be exercising a lot more control over the regulatory process. In particular they will be able to apply enforcement sanctions direct without any contact with the RSBs. They can apply these not only to PIE and AIM auditors but to any audit firm where they have elected to take over the audit inspection and investigation of individual cases.

This direct power is summarised in the new audit regulations 1.02A, 1.02B and 7.11 and replaces the Auditor Regulatory Sanctions Procedure introduced in 2013; this had been set out in regulations 7.00A and 8.02 which are now deleted and 7.02 and 8.06 which are amended.

The powers of the FRC also include the ability to move licences of individual firms between bodies or directly administer them themselves. In such cases the rules of the new RSB can apply to that firm. This requirement is set out in 1.02A.

The ARD required some additional sanctioning powers be given to the regulatory bodies, and these have been brought into chapter 6 of the regulations. These include the ability to order repayment of an audit fee in part or whole, and to declare an audit report invalid (regulation 6.02P). We will work with the FRC to determine how these particular sanctions should apply in practice later this year. A further requirement is for publication of individual decisions which is set out in 6.02I and explained in guidance under 6.02.

There are a number of reference points in these new regulations to the FRC's own regulations for example on the conduct of audit work (Chapter 3) and the eligibility criteria (Chapter 2). To keep the regulations consistent in format with those of previous years we have included them here, but future versions may cross refer rather than reproduce the key elements.

The future regulatory process for the Republic of Ireland has not yet been fully determined though some interim arrangements are to be enacted in June 2016. Consequently these new audit regulations only apply to UK audits. Irish audits will continue to be regulated under the 2013 edition of the audit regulations.

A list of the revisions to the November 2013 set of regulations are available at icaew.com/auditguidance. A summary and analysis of the changes will be published in the next couple of weeks alongside these documents.

EU audit regulatory reform update: close to a landing

In [Audit News, issue 56](#) we gave an overview of the developments around the implementation of the EU Audit Regulation and Directive (ARD). Primarily impacting PIE and other listed audits, the changes affect who regulates what, what a PIE is, and a whole series of changes to audit standards (ISAs UK and Ireland) the Ethical Standard on auditor independence (ES), and the UK Code of Corporate Governance and Guidance for Audit Committees.

Since that article, the legislation has been finalised and, at the time of writing, is with Parliament for debate (close timing, given the EU's 16 June implementation date). The legislative changes are largely via amendments to the Companies Act 2006 and a new Statutory Instrument: The Statutory Auditors and Third Country Auditors Regulations, known as SATCAR.

The FRC has also published 'final drafts' of its revised standards and codes – technically they have to be draft, until the legislation is passed, but in substance they are final.

Although a lot of the detailed wording in the standards (particularly the ES) has been changed as a result of consultation feedback, the substance of the key changes we considered in AN56 remains unaltered. Two areas where there have been changes of note since the consultation drafts commented on in our last article are:

- We had noted for listed non-PIE audits (primarily AIM companies), the current independence requirements for listed entities continue broadly to apply, but there are some relaxations for entities with a market capitalisation of under £100m. The limit in the 'final draft' has been raised from £100m to Euros 200m – which is line with other EU legislation.
- We had also noted an extension to extraterritoriality: the FRC had proposed network firms involved in the audit of a UK group will be expected to apply the ES requirements, instead of those of the International Ethics Standards Board for Accountants Code. In the 'final draft' ES, the extension has now been limited to audits of groups which include a PIE: for others, the existing position prevails.

The new standards will apply for audits of period commencing on or after 17 June 2016.

New responsible individual application form – effective 1 July 2016

We will soon publish a revised [responsible individual \(RI\) application form on our website](#). All applications must be made on this form from **1 July 2016**. This is to ensure that all parties satisfy IFAC's compliance requirements under International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements.

The new application form will require all prospective RIs and their firms to confirm the applicant has met the competences set out in IES 8, and where necessary, to provide examples from the applicant's work experience to evidence this.

Audit Reform implementation

The Audit and Assurance Faculty has put together an [Audit Reform Implementation e-resource](#) to bring together relevant information on audit reform and provide practical support. It includes background information and links to the standards. Additional materials will be added over the coming months, including articles, Q&A and other guidance.

Audit Essentials 2016

Prepare for your firm's next audit monitoring visit with our latest monitoring report, [Audit Essentials 2016](#). Access the latest guidance based on recent audit monitoring reviews.

ATOL reporting

Our [Licensed Practice scheme](#) has been approved by the Civil Aviation Authority (CAA) as an ATOL Reporting Accountants' scheme. Since 1 April 2016, if you want to act for ATOL licence holders and submit ATOL Accountants' Reports to the CAA, you must be an ATOL Reporting Accountant. We have revised the *Technical Release* [TECH 09/16AAF](#) to take account of changes to the ATOL reporting requirements introduced by the Civil Aviation Authority (CAA). The main changes include:

- changes to the reporting requirements to reflect the introduction of an Annual Accountants' Report (AAR);
- inclusion within Part 2 of the Annual Accountants' Report of an additional ATOL Reporting Accountants' report on the extraction of information from the ATOL holder's Financial Statements;
- a duty to report breaches of the ATOL Regulations to the CAA that ATOL Reporting Accountants become aware of during the course of their engagement; and
- a brief description of the new licensing arrangements for ATOL Reporting Accountants.
- ATOL Reporting Accountants should also refer to [CAA's revised Guidance Note 10](#) which provides information on the licensing process, reporting requirements for ATOL holders and their ATOL Reporting Accountants and the purpose for which the ATOL holders' reports are used by CAA and the ATT.

Where next with assurance?

Where and how can businesses and their stakeholders best apply assurance, outside of the statutory financial audit?

The volume of non-financial information being prepared and shared around the world is only going to increase, and the flow of information within organisations is getting increasingly sophisticated. ICAEW's consultation paper, *Where next with assurance?*, seeks input from experts in practice, in business, and beyond. We want your response propositions on five aspects of the assurance market:

- seeing the business as a whole;
- the role of the board;
- getting the right assurance in the right place;
- risk disclosures and forward-looking information; and
- narrative information.

Visit icaew.com/assurancewherenext to find out more.

Corporate reporting

Many company reports are still too long and can make it difficult to hold companies to account for their performance. Collective action is needed by preparers, auditors, regulators and investors if a solution is to be found. In *Audit insights: corporate reporting* we offer recommendations for improving seven important areas of non-financial reporting.

Autumn roadshows 2016

- 2016 and beyond: future audit challenges and opportunities.
- All the latest UK GAAP developments and emerging issues.

Visit icaew.com/aafroadshow2016 and icaew.com/frfroadshow2016 for more information and to book your place.