

The Revised Auditing Standards (ISAs (UK)) and changes to the audit report

- On 17 June 2016 changes in EU legislation in respect of statutory audit become effective.
- The FRC has issued revised Auditing Standards to support the work of audit practitioners in delivering high quality audit.
- The revised standards apply for accounting periods commencing on or after 17 June 2016.

The FRC has made changes to reflect the EU reforms throughout the Auditing Standards and ISQC (UK) 1. The majority of key changes apply to public interest entities (PIEs); listed entities; and those companies voluntarily choosing to comply with the UK Corporate Governance Code, however there are some changes that will affect all entities, with particular focus on enhancements to the audit report. The revisions do not fundamentally alter the underlying work required in an ISA audit, but instead focus on transparency and communication about the audit that was performed.

The changes are a move to address key issues identified by the FRC with respect to auditor reporting, specifically eliminating unnecessary wording; and making auditor's reports more informative.

A key change involves the introduction of a new standard, ISA (UK) 701, which introduces a new section of the audit report to communicate 'Key Audit Matters'. This section is mandatory only for audits of financial statements of PIEs; listed entities; and those companies applying the UK Corporate Governance Code. Key Audit Matters are driven from matters communicated with those charged with governance, and will highlight those matters that were of most significance in the audit.

Note, however, that the disclosure of Key Audit Matters is not a substitute for:

- disclosures in the financial statements (rightfully the responsibility of those charged with governance); or
- the auditor to express a modified or other opinion; or
- reporting any matters relating to going concern (see below).

For all other audits, in relation to the audit report, the main changes involve ISA (UK) 700 Revised, ISA 720 (UK) Revised, and ISA (UK) 570 Revised and are as follows:

- The auditor's opinion section is required to be presented prominently at the beginning of the audit report, unless law or regulation prescribe otherwise;
- An enhanced description regarding the responsibilities of the auditor, including representations on detection of misstatements arising from fraud or error, and exercising professional scepticism throughout the audit;
- New descriptions of both the responsibilities of management and the auditor in relation to going concern;
- Enhanced reporting requirements when a material uncertainty exists in relation to going concern; and
- New and revised reporting requirements relating to other information that is included in an entity's annual report.

ICAS Audit Monitoring (AM) would remind firms that, in the UK, those charged with governance are responsible for the preparation of the financial statements and the assessment of the entity's ability to continue as a going concern. A key consideration, and an area of focus for our monitoring visits going forward, will be the adequacy of disclosures in the financial statements, and the auditor's responsibilities in relation to:

- Going concern; and
- The director's report and strategic report.

As part of the ICAS AM process, we will be considering the appropriateness of the audit report in this regard, and firms are encouraged to carefully consider these areas, particularly where the audit firm also prepares the statutory accounts on behalf of the client.

The FRC has published a compendium of illustrative auditor's reports, applicable to United Kingdom private sector financial statements for periods commencing on or after 17 June 2016. The auditor's reports set out in the Appendices to the bulletin, support and illustrate how the requirements of ISA (UK) 700 and other reporting requirements of the ISAs (UK) can be applied, and includes illustrative examples of scenarios for reporting on going concern; and the auditor's opinion on the directors' report or a strategic report.

Note for firms with audit clients in Ireland

On 31 January 2017, The Irish Auditing and Accounting Supervisory Authority (IAASA) adopted the Auditing Framework for Ireland. One of the impacts of the Regulations is that IAASA (rather than the FRC) is now responsible for the adoption of the auditing framework in Ireland.

Following a period of consultation, IAASA obtained a license from the UK's Financial Reporting Council ('FRC') to tailor the UK FRC audit framework for use in Ireland, including the ISAs, ISQC1 and Ethical Standard. This work was completed and the Standards adopted; mandatory for use in auditing financial statements of periods beginning on or after 17 June 2016, for which audit opinions are signed after 1 February 2017. Note that, at this stage, there are no significant changes from the requirements of the revised UK standards

For audits of financial periods beginning before 17 June 2016, the FRC's Ethical Standards ES1-5 and ISAs (UK and Ireland) continue to be the appropriate standards.

The FRC publishes a revised Practice Note 20

The FRC has published a revised Practice Note 20, which brings together guidance for practitioners auditing insurance entities in the UK. The revised Practice Note includes guidance on the application of ISAs (UK) to support:

- the audit of insurance company statutory financial statements;
- insurers' regulatory reports under Solvency II which the Prudential Regulatory Authority requires are audited in accordance with international standards on auditing; and
- friendly societies (the FRC has withdrawn the separate Practice Note 24).

The guidance was developed in cooperation with the Prudential Regulation Authority, and includes illustrative auditor's reports for regulatory engagements. It also includes material to support auditors working in the Lloyd's Market. The revised PN 20 is available for immediate use.

Note that under the Audit Regulations and EU Auditing Directive, most insurance undertakings are designated as public interest entities (PIEs), the audit of which is subject to direct oversight and regulation by the FRC.

The Public Audit Forum issues a revised Practice Note 10

The Public Audit Forum (PAF) has issued a revised Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom. The guidance came into effect from 22 November 2016.

The Practice Note focuses on the audits of financial statements of public sector bodies though note that the Practice Note is not relevant to all public sector audit work. This would include work which is subject to specific requirements in the relevant Codes of Audit Practice or other guidance issued by public audit bodies (for example value for money arrangements).

The revised PN10 reflects recent changes in the legislative and regulatory frameworks by:

- removing references to the now disbanded Audit Commission;
- referring to the new local audit arrangements that apply in England under the Local Audit and Accountability Act 2014;
- updating references to the Codes of Audit Practice issued by the UK public audit bodies; and
- making the guidance more principles based.

The PN has two main parts:

- Part 1: Application guidance for International Standards on Auditing (UK) – ISQC (UK) 1 is included, though the guidance does not cover ALL auditing standards (ISAs 230, 250B, 300, 500, 501, 505, 530, 701, 705 and 710 are omitted);
- Part 2: The audit of regularity

Note that PN10 does not duplicate the existing standards, and the relevant ISAs should be read alongside the Practice Note. Helpfully, objectives and public sector interpretations are included for context and the Practice Note only includes material where it is relevant and where specific guidance would help to support consistency in the application of the auditing standards.

The Practice Note further sets out the requirement of ISQC1 in relation to “appointed by” audit engagements where a public audit body such as Audit Scotland or the National Audit Office delegates the audit to another firm which signs the audit report in its own name. A copy of the Practice Note can be found on the FRC website.

"Bridge the GAAP" - New UK GAAP support for practitioners – Aberdeen

Places are now available for this free-to-attend ICAS evening event, taking place in Aberdeen on 2nd May.

The event will focus on the challenges firms are facing in the implementation of the new UK GAAP (FRS 102), and how to avoid the pitfalls and stay on track. Practitioners are facing a challenging time and this is a great opportunity to hear from informed speakers on key issues affecting your firm, and to engage with fellow practitioners on common issues.

The event will cover both company accounts and charity accounts, covering:

- UK GAAP findings coming out of recent monitoring visits and FRS 102 surgeries.
- Key issues in relation to charity accounts and independent examinations.
- How our Practice Support team can help you.

This will provide practitioners with two hours of free CPD and will be aimed at practical issues being faced by firms rather than technical theory.

The event speakers will include representatives from our monitoring, technical and practice support teams. To find out more and book a place on this free-to-attend event, please visit www.icas.com

Reminder – “Keeping Audit on the Right Track” Mandatory course for ACPs and RIs

As part of the ICAS developmental approach to regulation, this course aims to educate Audit Compliance Principals (ACPs) and Responsible Individuals (RIs) in developing a strong compliance function and preventing some of the recurring issues identified on audit monitoring visits.

As of 1 January 2016, there has been an increase in the mandatory requirement of this course, where it is considered that the course will be beneficial to a wider audience to increase audit quality among ICAS audit registered firms.

The resulting requirements are that:

- Each ACP will be required to attend at least once in the three-year period from 1 January 2016 to 31 December 2018;
- Each RI will be required to attend at least once in the five-year period from 1 January 2016 to 31 December 2020;
- Newly approved RIs will be required to attend the course within 12 months of approval; and
- Previously inactive RIs (i.e. approved RIs who are not signing audit reports), who have recommenced the role, will be required to attend the course within 12 months of becoming active.

The course is presented by the ICAS Audit Monitoring team and has been created to educate and support ACPs and RIs and covers all areas of audit compliance responsibilities, key regulatory issues, common compliance failings, and key findings from ICAS audit monitoring visits. For further details, please search for '*keeping audit on the right track*' on icas.com