



IN THIS ISSUE...

Too many checklists

The auditor and going concern

Accounting for service charges

Dogs buying degrees and customers selling their souls!

Unlawful action by HMRC

Technical Q&A

Audit at the crossroads

Key publications

Bulletin board



Too many checklists

Ask any audit team member what they most hate about auditing and the usual answer will be the checklists. Checklists have an odd effect on the brain for some audit staff, causing them to switch off and almost adopt a mantra of 'Yes', 'No' and 'N/A'. For some audit clients, the never-ending checklist often just tells a reviewer what the audit team has not done to audit the client rather than what it has done. Often those two words 'N/A' stand for 'not attempted' rather than an indication that the issue raised by the checklist question is not relevant to the client. Perhaps the time has come to redress the balance between giving staff a checklist for every occasion and expecting them to engage brain and actually think about the audit approach? Having recently reviewed some new checklists for the clarified ISAs, I was tempted to ask if we need to remind the audit team to breathe in, breathe out just in case they forgot to do that as well!

The APB's Practice Note (PN) 26 draws a distinction between using commercial audit documentation and taking a free-form approach to recording the information on an audit file. The PN makes clear that auditors are not expected to record all the information they are aware of about the client, only that information that demonstrates the audit approach they have adopted, or is key to the understanding of the audit decisions taken. However, give the audit team a standard checklist and they will fill it in no matter how irrelevant the questions may be to the circumstance they are dealing with.

In the past, I have helped firms to develop a tailored audit approach to specific clients. These have usually been set up to run through an expanded audit-planning memo that removes the need for the checklists to be used. This planning memo needs to be completed by a member of the audit team who knows the client but also has a good working knowledge of the requirements of the auditing standards. These planning memos require the audit team to highlight the key issues that have been identified from their own knowledge of the client and their expertise as auditors. This approach frequently gives a much more focused audit file as the planning has had to be thought about and is not just a 'tick the box' exercise. I would argue that this has benefits for both costs and quality of the audit work produced.

Checklists clearly have an important place in the audit approach but perhaps they need to be used in moderation. An over-reliance on checklists could be as damaging as not using any checklists at all, as this high-level reliance sometimes prevents the audit team

from considering the obvious. Many of the audit staff that I work with are highly trained intelligent individuals who would get greater satisfaction out of using their knowledge and skill rather than just ticking the boxes.

The introduction of clarity ISAs is an opportunity to consider how flexible your audit documentation is in this area. Will your documentation allow the audit team to indicate that standard checklists have been replaced with free-form narrative considering the issues that are relevant to the client? For some clients the ability to review the checklists and then complete a free-form note may be the best of both worlds, giving the audit team the opportunity to review the issues and check that they have not missed anything.

There are of course dangers in giving the audit team this level of flexibility. A member of the team with poor audit knowledge may produce an inadequate audit plan with a disastrous impact on the audit quality. The requirement for the audit partner to sign off the planning (at the planning stage) should prevent this from impacting on the audit approach. The ability to get your audit team thinking and focused on issues relevant to the client has great benefits for both technical quality and cost effectiveness. For smaller audit clients this benefit may well outweigh the risk associated with not completing standard checklists. Perhaps we should have a campaign for 'real audit files'.



Adrian Gibbons
Business
Development
Director,
SWAT UK

IN THIS ISSUE...

01 Too many checklists

Adrian Gibbons highlights the dangers of using audit checklists.

02 The auditor and going concern

Geoff Swales summarises some challenges that auditors are still facing around going concern.

03 Accounting for service charges

Mary-Louise Wedderburn considers the implications of a recent High Court judgment for landlord company accounts.

04 Dogs buying degrees and customers selling their souls!

Christopher Arnull summarises pitfalls around electronic contracts.

05 Technical Q&A

Ray Farren answers a query about the preparation of consolidated accounts by a small parent company.

06 Unlawful action by HMRC

Reynolds Porter Chamberlain highlight a High Court decision where HMRC has acted unlawfully in terminating a firm's tax agent status.

07 Audit at the crossroads

Charles Bowman provides details of a forthcoming event.

07 Key publications

08 Bulletin board

The auditor and going concern

The latest faculty external audit lecture covered going concern, an issue still at the forefront of many audits in the current economic environment. Its topicality has been reinforced by the FRC's decision to hold an inquiry to learn the lessons for companies and auditors on going concern and liquidity risk. In their 2009/10 annual report, the AIU noted that '...a number of shortcomings relating to the audit of going concern were identified at both major and smaller firms.'

Guidance for auditors is included in ISA 570 (UK&I), *Going concern* www.frc.org.uk/apb/publications/pub2097.html and APB Bulletin 2008/10, *Going concern considerations in the current economic environment* www.frc.org.uk/apb/publications/pub1824.html. But evaluating management's assessment of going concern provides practical challenges for auditors. As a number of the attendees noted, management may not have performed a formal going concern assessment, particularly in smaller companies. ISA 570 (UK&I), paragraph A11, *Considerations Specific to Smaller Entities* acknowledges this, noting that management instead rely on their in-depth knowledge of the business and anticipated future prospects. In these cases, the auditor can obtain information from discussions with management but it needs to be corroborated, for example by examining the entity's sales order book.

Viewing forecasts with scepticism

Where management has produced forecasts to support its assessment, the auditor needs to view these with appropriate professional scepticism. What evidence is available to support the assumptions used? Are those assumptions consistent with the auditor's knowledge of the business/market? Have realistic downside scenarios been modelled, assessing sensitivity to changes in judgemental assumptions? Are there factors specific to the entity's products or customer base (for example, concentration of customers in the public sector)? Attendees also stressed the need to consider the possible crystallisation of contingent liabilities (for example, arising from tax disputes).

The entity's forecasts may show that there is limited headroom in finance facilities, but mitigating actions may be possible, such as cost reductions or sales of non-core assets. The auditor needs to consider their feasibility, for example, whether they are within management's control and can be achieved in time, and what the possible consequences on the business might be. Some actions such as property sales may not be achievable in a short timeframe.

Support from banks or owners?

The next challenge is evaluating the availability of finance, and the conditions on which it is provided. APB Bulletin 2008/10 explains that there might be a number of reasons why a bank is unwilling to confirm the availability/renewal of facilities, and in practice, it is unlikely that the entity will be able to obtain such confirmation. Therefore, the auditor needs to consider available evidence, such as the past history of provision of facilities, the entity's relationship with its bankers and the status of any negotiations regarding renewal of facilities or waivers of covenant breaches. Discussion with the entity's bank(s) is likely to be needed, although attendees highlighted the difficulty of being able to meet the decision-makers within the bank.

Some entities depend on support from their parent entity or owner-manager(s), so the auditor needs to assess the ability and intent of the parent entity/owner to provide support. A letter of support may be obtained by the entity from its parent, providing evidence of intention to support. In terms of ability to support, the parent entity's own going concern assessment may have been performed some time earlier, particularly if the parent is overseas. The auditor may need help from the parent entity's audit team to evaluate an updated assessment.

Material uncertainty?

The auditor then needs to reach a conclusion. Is there a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern? There are some who believe that including an emphasis of matter paragraph might accelerate an entity's downfall. Others believe it is a 'safe option' for the auditor. But it needs to be a reasoned conclusion, based on evaluating all of the available evidence. The judgement may be difficult, for example where there is risk of a covenant breach. If the auditor concludes that there is a material uncertainty, the adequacy of the entity's disclosure in the financial statements needs to be considered – in practice, the difficulty is often in ensuring the financial statements disclosure is sufficiently clear that there is 'significant doubt'.

Lastly, the auditor needs to document the work performed and the rationale for their judgements. APB Practice Note 26 provides a useful example of the nature and extent of documentation for the audit of a smaller entity.

Many auditors have learnt a lot from the experience of addressing these challenges. It will be interesting to see what emerges from the FRC's inquiry.



Geoff Swales is a director in PwC LLP's Assurance Risk & Quality Group and a member of the faculty's Technical and Practical Auditing Committee.

Accounting for service charges: implications of the 'Daejan' appeal ruling

In October 2010, Technical Release 01/10, *Accounting for Service Charges*, (TECH 01/10) was published for consultation by ICAEW, the Association of Residential Managing Agents (ARMA) and the Royal Institution of Chartered Surveyors (RICS). The proposed guidance is aimed in particular at residents' management companies (RMCs) or similar that are the 'landlords' of leasehold properties as defined by section 30 of the Landlord and Tenant Act (LTA) 1985. The interaction of the Companies Act 2006, landlords' responsibilities under property leases and the LTAs of 1985 and 1987 in preparing statutory accounts for such companies has caused much confusion.

Under most long leases of flats, the landlord covenants to repair and maintain the block and the tenants (lessees) covenant to meet the cost through a service charge. Section 42 LTA 1987 requires residential variable service charge monies to be held on trust unless the landlord is an exempt landlord such as a housing association. Service charge transactions and balances should, therefore, be accounted for separately from the landlord's transactions and balances, although it is not always easy to define what items 'belong' to the landlord and therefore need to be disclosed in the landlord's statutory accounts.

The question of landlord liability for property maintenance costs can be particularly difficult. The trust created by s42 LTA 1987 has neither the capacity nor responsibility to maintain the property: it is simply a fund from which the landlord (or landlord's agent) pays the expenses specified by the lease or leases for the property. Contracts for services are typically made in the name of the company, even if the company employs a managing agent. This raises the question of when, and if so how, should any liability for service charge costs be disclosed in the landlord company accounts.

The answer is that it depends on whether the cost is recoverable from service charges. At one extreme, the possibility of non-recovery should be remote if the landlord has complied with the terms of the lease and with the statutory requirements for consultation on any major works. In this case, the landlord company may simply show any contractual commitments at the year end in a note to the accounts, as in the example in TECH 01/10. At the other extreme, if the landlord has not undertaken due consultation, the cost of works undertaken may be

unrecoverable, resulting in a bad debt or liability to be disclosed in the primary financial statements.

Daejan Investments Ltd (Daejan)

This case www.bailii.org/ew/cases/EWCA/Civ/2011/38.html illustrates the latter extreme. The Court of Appeal ruled that Daejan (the landlord company) was only entitled to receive a £250 contribution from each of five long leasehold owners of flats in the property (ie, £1,250 in total) towards costs of about £270,000, because Daejan had not complied with the statutory consultation requirements required by section 20, LTA 1985 before undertaking major works. The shortfall of £268,750 will therefore fall on the company.

The consultation requirements apply to all landlords contemplating substantial or non-routine expenditure such as external painting of a property, so even small lessee owned/controlled landlords such as RMCs could be liable for the cost of such works if they 'get it wrong'. However, one point considered by the Court of Appeal in Daejan was whether the nature of the landlord was relevant to the grant or refusal of dispensation from the statutory consultation process so that a less rigorous approach may be justified for lessee owned/controlled landlords. As Lord Justice Gross said: 'where the lessees are their own landlord, the consultation requirements have to be considered against the

background that they are spending their own money; it may no longer be the case of X spending Y's money. Furthermore, in such a situation, there may be a greater likelihood of canvassing the relevant information by way of informal or extra-statutory consultation.'

Experience suggests, however, that a spirit of cooperation and involvement of all lessees in the management of the property does not always exist in even the smallest lessee-owned or managed properties. Further, there are many landlord companies where there is not 100% common identity of members of the company and lessees. In short, the LTA consultation requirements apply to all landlords, irrespective of their size or constitution. In drawing up accounts that are required to show a true and fair view, the directors of the landlord company must consider whether there is any expenditure that might not be recoverable from leaseholders' service charges, and, if so, how this liability should be accounted for.

The faculty's spring roadshow **Topical issues for today's SME practitioner** will cover the latest on service charge accounts (see Bulletin board for more information).



Mary-Louise Wedderburn
Consultant,
Business Law



Dogs buying degrees and customers selling their souls!

Have you heard the one about the dog that bought a degree? Or how a company managed to acquire its customers' souls? They make for interesting stories and show that truth is often stranger than fiction. They could have lessons for auditors trying to identify material misstatements in financial statements that are being audited.

How did the dog buy the degree?

When the Court of Appeal was hearing the case of BSKyB and EDS, one witness claimed to have been awarded an MBA from Concordia College. It was found not to be a genuine degree obtained following academic studies. Mr Justice Ramsey put it this way:

'In fact, Concordia College is a website which provides on-line degrees for anyone who makes an application and pays the required fee. This was effectively and amusingly demonstrated by an application which was made on the website for an MBA degree for a dog 'Lulu' belonging to Mark Howard QC. Without any difficulty, the dog was able to obtain a degree certificate and transcripts, which were in identical form to those later produced by Joe Galloway but with marks, which, in fact, were better than those given to him. In addition, a recommendation letter was provided to Mr Galloway and the dog by a person who purported to be President and Vice-Chancellor of Concordia College and University ...'

An institution selling degrees will no doubt account for the sales in its financial statements. Is its auditor required to make any special enquiries? In the 1896 case of *Re Cotton Mills*, Lord Justice Lopes famously defined the auditor's duty by comparing the approaches of different dogs.

'An auditor is not bound to be a detective, or, as was said to approach his work with suspicion, or with a forgone conclusion that there is something wrong. He is a watchdog, not a bloodhound.'

Whether auditing like a bloodhound or a watchdog, a purchase of a degree by a dog would no doubt raise questions for an auditor adopting the 'attitude of professional scepticism' required by ISA 240 (UK&I).

Be careful not to give away your souls

It is not only dogs that might give rise to auditing issues. Sometimes customers can give away more than might be expected. As an April fool prank, in 2010 online computer game seller Gamestation changed their website terms and conditions to require anyone buying goods to release their souls. The terms said:

'By placing an order via this web site on the first day of the fourth month of the year 2010 Anno Domini, you agree to grant us a non-transferable option to claim, for now and for ever more, your immortal soul.'

The terms went on to say that Gamestation 'or one of its duly authorised minions' could serve notice to exercise this

option, reserving the right to do so 'in 6 (six) foot high letters of fire' but customers had an option to click a link 'to nullify this sub-clause'.

On that day, Gamestation said that 7,500 people made online purchases and no-one clicked on the link to nullify. This is a good illustration of the fact that most people probably do not read online terms and conditions when concluding online contracts to purchase.

Electronic contracting

What the dog and soul examples have in common is the electronic nature of the contracting. Risks of inaccuracies in financial statements can arise when the audit client engages in online or email contracting. This is not because there is anything inherently unsound with electronic contracts. Provided that the necessary ingredients that go to make up a valid contract are all there, the law will enforce an electronic contract just as it will enforce a more traditional paper-based contract with ink signatures.

The ingredients are offer, acceptance, an intention to 'create legal relations' (meaning that the parties are serious about enforceable promises), and consideration (which is what one party gets from the other – often a payment). The law will keep up with technology by applying traditional legal principles to current activities. So the absence of paper and ink is in no way fatal. But electronic contracting can still present financial statement risk.

APB Bulletin 2001/3, on *E-business* www.frc.org.uk/apb/publications/pub0379.html told us that 'internet technologies are continuing to evolve' and predicted that 'over the coming years' businesses would 'establish real-time trading links with customers and suppliers'. Auditors 'obtain an understanding of the contractual terms', may need a knowledge of 'the legal enforceability of electronic contracts and signatures' and can consult 'external experts'. E-business risks that may affect financial statements include an inability to enforce electronic contracts and the possibility that electronic contracts may not be legally binding.

These risks remain today but are perhaps greater owing to the increases in electronic contracting since 2003, while paradoxically reduced because businesses and their auditors have become more used to contracting in this way. Much depends therefore on the experience of the audit client and the auditor.

Audit documentation

Online contracting is in line with audit evidence and documentation requirements. ISA (UK&I) 500, *Audit Evidence* www.frc.org.uk/apb/publications/pub2092.html recognises that some of the evidence obtained by an auditor might be in electronic form. ISA (UK&I) 230, *Audit Documentation* www.frc.org.uk/apb/publications/pub2079.html requires the auditor to prepare 'documentation' that provides a sufficient and appropriate record of the audit and evidence that it was performed in accordance with applicable requirements. Audit documentation 'may be recorded on paper or on electronic or other media'. So an experienced auditor in 2011 will be used to managing paperwork electronically and will not be unprepared for an audit client concluding contracts with customers and suppliers online.

Financial statement risks can still arise, even for the experienced and prepared auditor, especially if the audit client deals with many private consumers or contracts through emails.

Do you know what you are agreeing to?

Mrs Neal appointed estate agents to sell her home. There was an exchange of emails between the agents and Mrs Neal, the agents emailing their standard terms and details of the basis on which they were appointed. Mrs Neal responded saying 'That's fine, look forward to some viewings.'

There was an argument over whether or not there was a sole agency. Mrs Neal had not read the attachments and said that her 'That's fine' email was a response to a telephone call, not to the email attaching the agency's terms. Mrs Neal felt that there was no contract, or no contract on the agency's terms as this was not what she had intended.

The court scrutinised the emails for evidence of what had been agreed. The court found that Mrs Neal's 'That's fine' email was her response to the agency's email with the standard terms: 'It is not – and this is also important – a new email created freshly and without reference to' the agency's email. A contract on those terms had therefore been concluded. So we see that the court will look at what the evidence shows. Email trails and the actual words used can be critical.



Subject to contract

It is not only private consumers who can get into a contracting muddle when exchanging emails. Immingham Storage Company had email correspondence with Clear Plc about a contract for Clear to store fuel at Immingham's storage depot. Immingham emailed a quotation to Clear with all the main commercial terms confirmed but the email was labelled 'Subject to board approval and tankage availability'. All other terms were to be 'as our General Storage Conditions', with 'a formal contract' to follow 'in due course'. There was a space to sign against 'we accept the terms'. Clear signed and returned. Immingham emailed acceptance of Clear's offer and sent a formal contract separately. The contract was not signed, the storage facility was not used and Clear did not pay Immingham's invoice. Clear said that there was no binding contract.

The court found that the trail of emails was enough to form a contract. All the main terms had been agreed. The phrase 'subject to contract' did not feature in the emails. The ingredients for a contract were present.

Unusual cases illustrate how quite esoteric legal points on electronic contracts can give rise to issues for auditors. Traditional legal principles will keep pace with technological advances, just as auditors apply their skills to new situations. Audit clients can help by explaining how they contract and lawyers can be consulted in difficult cases. If dogs

are involved or a client seems to be acquiring assets that are difficult to value, even for an agnostic, a step back to the old favourite, common sense, might be in order!



Christopher Arnall is a solicitor at KPMG LLP and is a member of various ICAEW committees and working groups. The views expressed in this article are his own.

Technical Q&A

Q: When a small parent company, which heads up a small group, voluntarily prepares consolidated accounts, what accounts does it have to file at Companies House?

A: Where the parent company of a small group voluntarily chooses to prepare consolidated accounts under s398 CA2006, it will not be able to file abbreviated accounts.

A small company voluntarily preparing group accounts may choose not to file the company profit and loss or the directors' report. However, the directors will have to file the following:

- company balance sheet (including the balance sheet statement referred to in s444(5));
- consolidated profit and loss account;
- consolidated balance sheet; and
- full notes to the above.

The FRSSE can still be adopted subject to the requirements of section 16. The inclusion of a cash flow statement is voluntary.

Regulation 6 of *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409) allows small companies to file an abbreviated balance sheet and related notes ie, one which complies with Schedule 4 (*Companies Act Abbreviated Accounts For Delivery To Registrar Of Companies*), rather than Schedule 1 to the Regulations. Regulation 11 covering group accounts gives no such concession, hence where group accounts are prepared, abbreviated accounts will not be possible.

The filing obligations of a small company are set out in s444 of Companies Act 2006. In particular:

S444(1) The directors of a company subject to the small companies regime:

- (a) must deliver to the registrar for each financial year a copy of a balance sheet drawn up as at the last day of that year, and
- (b) may also deliver to the registrar:
 - (i) a copy of the company's profit and loss account for that year, and
 - (ii) a copy of the directors' report for that year.

S444(5) Where the directors of a company subject to the small companies regime deliver to the registrar IAS accounts, or Companies Act accounts that are

NOT abbreviated accounts, and in accordance with this section:

- (a) do not deliver to the registrar a copy of the company's profit and loss account, or
- (b) do not deliver to the registrar a copy of the directors' report,

the copy of the balance sheet delivered to the registrar must contain in a prominent position a statement that the company's annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

There is also a concession which specifically applies to both small company and small group accounts, detailed in Regulations 6 (2b) and 11, which allows disclosures regarding directors' benefits and shares of company held by subsidiary undertaking to be excluded from the accounts submitted to the registrar.



Ray Farren Technical Adviser, Technical Enquiry Services +44 (0)1908 248 250

Unlawful action by HMRC

The High Court has held in a landmark decision that HM Revenue & Customs (HMRC) acted unlawfully when terminating an accountancy firm's status as a tax agent.

The case of *Christopher Lunn & Company v HMRC* [2011] EWHC 240 (Admin) concerned a West Sussex firm of accountants' challenge to HMRC's decision to withdraw its tax agent status. The High Court held that authorised tax agents should have been given the opportunity to make representations before the HMRC decided to cease to deal with them as agents or representatives for any taxpayer.

Facts

The claimants, Christopher Lunn & Company ('CLAC'), applied for judicial review of a decision by HMRC to cease to deal with CLAC as an agent or representative for any taxpayer and to cease to communicate, by any means, with CLAC as tax agents for taxpayers. CLAC acted as tax agents authorised by a significant number of clients to deal with the commissioners. These clients included a number of high profile media professionals including the BBC newsreader, Fiona Bruce, and actress and designer, Sadie Frost.

The relevant local tax inspectorate began to be concerned about a significant number of tax returns submitted by CLAC on behalf of clients and, more generally, about the level of skill and care employed by CLAC in its dealings with the commissioners as an authorised agent. The commissioners began a criminal investigation of CLAC and came to the view that CLAC had not simply been negligent and unprofessional in its dealings with the commissioners but that there were reasonable grounds for concluding that they had systematically committed fraud in such dealings. The commissioners obtained and executed search warrants at CLAC's premises. They declined to disclose to CLAC a copy of the information grounding the issue of the search warrants. The commissioners considered refusing to deal with CLAC in respect of client returns and accounts submitted by CLAC on or before the search operation. However, they decided to refuse to deal with CLAC as tax agents at all and informed CLAC's clients of that decision.

CLAC argued that (1) the commissioners had unlawfully failed to give them the opportunity to make

representations before they took the decision; and (2) the commissioners failed to state reasons, or adequate reasons, for the decision.

CLAC further claimed that HMRC's decision not to deal with it led to severe disruption to its business and loss of revenue.

The decision

In his judgment, Mr Justice Kenneth Parker held that CLAC had been treated unfairly by HMRC by not affording the firm an opportunity to make representations before terminating its tax agent status and for failing to explain the reasons behind its decision. Justice Parker's ruling said, 'The reasons should have enabled CLAC both to understand the nature of the case against and, if it chose, to respond to the allegations.' Mr Justice Parker also said that the termination of tax agent status would lead to losses for the company and added, 'The fact that this status had been terminated for suspected systematic fraud was likely to damage its long term reputation for competence, probity and reliability, and thus its ability to rebuild its business as a tax adviser.'

In the circumstances, Mr Justice Parker quashed the decision on account of the unlawful procedural failure and the matter was remitted to the commissioners for reconsideration.

Comments

This is the first occasion in which a court has considered the status of a tax agent and only the second

time that the HMRC has ceased to deal with a tax agent, the prior case following a conviction of wrongdoing. As such, this is the first time that HMRC has removed the tax agent status of a firm that has not been found guilty of fraud – and this power was not challenged in the case. The case follows closely upon the report issued by the National Audit Office in October 2010, which examined the role of tax agents. This report found that there are approximately 43,000 professional tax agent firms in the UK and the market for preparing tax returns is worth around £2.5bn.

Commentators have been keen to point out that the court had nothing against the decision in principle and that while the judge did refer the decision back to the commissioners, it was the procedure and not the decision that was criticised. This would suggest that, perhaps had the procedure been followed, then the decision would have remained the same. The ruling further gives HMRC the opportunity to improve its procedures in cases where it feels the status can be removed. Thus, while first appearing to be a blow to the tax authorities, many commentators are suggesting that the long-term implications of the ruling could work in the HMRC's favour by making victories against firms it believes are indulging in fraudulent accounting more likely. With reputations at stake, firms of accountants should remain alert to the power of the HMRC to remove tax agent status.

Reynolds Porter Chamberlain LLP,
Accountancy Bulletin, February 2011





Audit at the crossroads

The audit profession is going through a challenging period. The EC has asked some difficult questions in its green paper on audit policy development around 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 accounts for SMEs as well, and audit threshold requirements are an easy target.

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. And, a number of visions which offer more choice, especially for SMEs, and which allow statutory

audit to evolve for the companies which require it, have been discussed.

Professions should lead change, as they have a duty to work in the public interest. Audit is no exception and practical steps to address how the profession can inspire business confidence in these testing times are needed.

ICAEW is keen to hear the views of practitioners from all sizes of firms and I will be chairing an event in London on 16 May 2011 to hear your views. Martyn Jones, ICAEW Vice-President elect will speak about the issues facing the profession and Robert Hodgkinson, Executive Director, Technical will outline what

ICAEW has done and will be doing.

You can contact me at charles.bowman@uk.pwc.com

For details about the event go to icaew.com/en/events/2011/may/taaffor110516-the-audit-profession-at-the-crossroads.



Charles Bowman
is a partner at PwC LLP and is a member of the Audit and Assurance Faculty Committee.

Key publications

Bribery Act: final guidance published

The Ministry of Justice has published the final form of guidance on procedures that commercial organisations can put into place to prevent persons associated with them from paying bribes. The guidance, available at www.justice.gov.uk/guidance/bribery.htm is key for businesses seeking to understand the implications of the Bribery Act. The publication of this document starts the three-month period for commercial organisations to implement procedures before the Act comes into force on 1 July 2011. Next month's *Audit & Beyond* will include an article on the practical implications for members.

House of Lords publishes its report on *Auditors: market concentration and their role*

The report accuses auditors of leading banks and other companies of 'complacency' and 'dereliction of duty' in the run-up to the financial crisis.

Michael Izza, ICAEW CEO has responded saying: 'The House of Lords Economic Affairs committee has raised some important issues in its report about the role of

audit. We do not accept that auditors contributed to the severity of the financial crisis. They did the job that they were expected to do – provide an audit opinion on banks' financial statements. However, as a profession, we recognise that the audit model has to evolve to continue to meet the needs of the market and society.'

Future of local public audit consultation

The DCLG consultation paper on the future of local public audit has also been published www.communities.gov.uk/publications/localgovernment/localpublicauditconsult. It sets out proposals on the new audit framework where:

- audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession; and
- local public bodies will be free to appoint their own external auditors with stringent safeguards for independence.

The consultation response deadline is 30 June 2011. If you wish to contribute to ICAEW's response, then please send your comments to sumita.shah@icaew.com by 9 May 2011.

Audit exemption

See the latest on the audit threshold at www.ion.icaew.com/MoorgatePlace/21707.

Bulletin board

Practice support services

What is it?

To support members in practice, ICAEW has developed a range of Practice Support Services (PSS). They are provided by a dedicated team of experts who are now exempt from the duty to report misconduct. Some of them previously worked in our QAD.

What services does it provide?

- **Clarified ISA coaching** – a review of one of your completed audits and coaching session to highlight the changes necessary under the clarified ISAs
- **Cold file reviews**
- **Whole-firm reviews**
- **Other practice management consultancy** (succession planning etc.)

Visit icaew.com/practicesupport or call +44(0)1908 248 250 and view our free webinar on 18 May on Clarified ISAs – your top 15 questions answered.

Audit and Assurance Faculty

Topical Issues for Today's SME Practitioner

Regional roadshow covering hot topics.

May to June 2011

icaew.com/topicalissuesroadshow

Documenting with Confidence

Thursday 16 June 2011

The lecture will address the issue of how to carry out an SME audit in the most effective and efficient way

icaew.com/documentingwithconfidence

Corporate Finance Faculty

Corporate drivers and deal

psychology

10 May 2011

icaew.com/cffevents

Financial Reporting Faculty

Financial Reporting Faculty

Roadshow 2011

From 28 September – 28 November 2011

icaew.com/frfroadshow2011

Financial Services Faculty

Financial Planning Conference – Embracing the future

26 May 2011

icaew.com/fsfevents

IT Faculty events

Business Analytics and

Reporting Course

15–17 June 2011

icaew.com/BAR

Demystifying ISO/IE C 27001

8 and 22 June 2011

icaew.com/itfac

Minimising Spreadsheet Errors

29 June 2011

icaew.com/itfac

Excel 2007 and 2010

29 June 2011

icaew.com/itfac

Glossary of professional bodies and terms

AIU	Audit Inspection Unit	IASB	International Accounting Standards Board
APB	Auditing Practices Board	IAASB	International Auditing and Assurance Standards Board
ASB	Accounting Standards Board	IESBA	International Ethics Standards Board for Accountants
BAS	Board for Actuarial Standards	IFAC	International Federation of Accountants
CCAB	Consultative Committee of Accountancy Bodies	IFRS	International Financial Reporting Standard
EC	European Commission	ISA	International Standard on Auditing
EQCR	Engagement Quality Control Review	ISA (UK&I)	ISA (UK and Ireland)
ES	Ethical Standard	PCAOB	Public Company Accounting Oversight Board
ES-PASE	Ethical Standards for Auditors – including Provisions Available for Small Entities	PIOB	Public Interest Oversight Board
EU	European Union	POB	Professional Oversight Board
FRC	Financial Reporting Council	QAD	Quality Assurance Department
FRSSE	Financial Reporting Standard for Smaller Entities	SME	Small and Medium-sized Entities
FSA	Financial Services Authority	SMP	Small and Medium-sized Practices

Audit and Assurance Faculty

Chartered Accountants' Hall
Moorgate Place London
EC2R 6EA UK

T +44 (0) 20 7920 8493

F +44 (0) 20 7920 8754

E tdaf@icaew.com

DX 877 London/City

icaew.com/aaf

Audit & Beyond

editorial information

Comments should be addressed to:

Audit and Assurance Faculty

ICAEW

Chartered Accountants' Hall

Moorgate Place London

EC2R 6EA UK

T +44 (0)20 7920 8516

E sumita.shah@icaew.com

icaew.com/aaf

Audit & Beyond is designed by Mercer Design, London on behalf of the Audit and Assurance Faculty.

If you have enjoyed reading *Audit & Beyond*, please pass this copy on to one of your colleagues or associates who may be interested in joining the Audit and Assurance Faculty. All enquiries should be directed to the faculty address on the left.

© ICAEW 2011.

All rights reserved. No part of this publication may be reproduced or copied in any form or by any means (including graphic, electronic or mechanical, photocopying, recording, taping or information retrieval systems) without written permission of the copyright holder.

This publication is intended to provide a summary of, and opinion on, developments relating to auditing and financial reporting. This information should not form the basis of any decision; nor should it be relied upon as a legal or professional guidance regarded as a substitute for specific advice.

No responsibility for any person acting as a result of any material in this publication can be accepted by ICAEW, the Audit and Assurance Faculty, the publishers or authors.

ISSN 7748-5789

May 2011

TECPLM9946