Technical Digest

July 2023

Edited by Andrew Jarvis

HAT
Group of Accountants

CENTRALPOINT, 45 BEECH STREET, LONDON, EC2Y 8AD

WELCOME

In our latest technical digest, we provide an overview of the recent changes introduced by Charities Act 2022, highlight guidance from ICAEW in relation to common findings in DPB monitoring visits and highlight further legal restrictions imposed on providing services to entities linked to Russia.

I am pleased to announce that Getrude Nota is joining our team later this month. Getrude brings a wealth of experience as an audit manager, most recently at a top ten firm and is looking forward to working on our helpline and visiting firms.

In advance of the new ICAEW CPD requirements, which are covered in full in our current Q3 Accounts and Audit Update we are pleased to add two new CPD courses to our calendar. Taking place in November these are a half day IFRS Update and a morning course covering Acting for FCA-regulated firms. These are being presented for us by Jez Williams, an experienced lecturer with specialist knowledge of these areas. Further course details will be made available in due course but dates and booking information is provided in Section 2 of this update.

As we head towards the summer our new starter courses for trainees covering accounting and audit are filling fast. For more information or to make a booking please contact Cassie.

I wish you all a good summer break.

Andrew Jarvis, Managing Director

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Recruitment and Kaplan queries

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Please contact us before visiting or sending paper files for review as our London office is only open by appointment.

WE ARE RECRUITING!

Due to continued expansion, we are seeking an experienced audit manager with a passion for audit and financial reporting to join us. Working at the heart of our team this role includes conducting file reviews and supporting our clients on our helpline. The precise role can be tailored to the strengths of the successful candidate and can include presenting our Quarterly Updates and other courses. If you are aware of anyone who might be interested in this role, please contact me in confidence.

UPCOMING COURSES AND EVENTS

Please see the HAT website www.hatgroup.co.uk for our full range of courses and further details such as pricing. Bookings can be made via our website or please email hat@hatgroup.co.uk or call 020 7213 9911 for more details.

CPD COURSES

The following courses are scheduled to run online over the next few months:

COURSE	PRESENTER	VENUE	MEMBER £	DATES
HAT Quarter 3 Update 9.30am – 11.15am	Andrew Jarvis	Online	£95	7 September 2023
AML - Introduction: Understanding your Responsibilities 2:00pm – 4:00pm	Andrew Jarvis	Online	£90	7 September 2023
AML Update for MLROs 2.00pm – 4.00pm	Andrew Jarvis	Online	£95	8 November 2023
NEW **IFRS Update** 9.30am – 12.30pm	Jeremy Williams	Online	£125	15 November 2023
NEW **Acting for FCA-regulated Firms** 9:30am – 1pm	Jeremy Williams	Online	£125	23 November 2023

CAREER DEVELOPMENT COURSES

Our popular Career Development course programme covers the skills needed for trainees and newly qualified staff. Full details are available here.

HAT RECORDED WEBINARS

In addition to the "live" CPD courses listed above, the following courses are available "on demand". A recording of the material can be provided, along with accompanying material, for attendees to watch at their leisure. For any questions or to purchase a recording please email hat@hatgroup.co.uk or speak to a member of the team.

COURSE	PRESENTER	DURATION
Auditing in 2023: ISA's (UK) 315 and 240	Simon Kettlewell	2.5 hours
ISQM (UK) 1: What does it mean for me?	Andrew Jarvis	2 hours
SRA Update	Andrew Jarvis	2 hours
Charities Update	Andrew Jarvis	2 hours
AML Compliance: A guide for Senior Management (2022 version)	Andrew Jarvis	2 hours
Effective Audit Review	Simon Kettlewell	3 hours

Please see the HAT website www.hatgroup.co.uk for our full range of courses and further details such as pricing. Bookings can be made via our website or please email hat@hatgroup.co.uk or call 020 7213 9911 for more details.

UPDATES TO THE HAT METHODOLOGIES

The following updates have been released this year.

REFERENCE	DATE	CONTENT
TM 03/22	18 August 2022	HAT Academies Methodology – August 2022
TM 04/22	20 September 2022	HAT Corporate Audit Methodology – January 2022
TM 05/22	20 September 2022	HAT LLP Methodology – January 2022
TM 06/22	30 November 2022	HAT Compliance Pack – July 2022 (11/22 Update)
TM 07/22	23 December 2022	HAT Charities Methodology – January 2022
TM 01/23	15 February 2023	HAT Pension Schemes Methodology – January 2022
TM 02/23	31 March 2023	HAT Not for Profit methodology – January 2022
TM 03/23	31 March 2023	HAT Registered Social Housing Providers methodology – January 2022

Our methodologies dated 'January 2022' reflect the revised requirements of ISA 315 and ISA 240 in full and have now been incorporated into the CaseWare Desktop and MyWorkPapers templates.

Summaries of the changes made are freely here.

A summary of our current methodology and compliance pack including details of effective dates can be obtained by logging into the members' area of the HAT website. Remember, key elements of our audit and non-audit methodology are available from our partners, CaseWare and MyWorkPapers. For full details of availability of our documentation within these platforms please contact us.

MAJOR PROJECTS OVER COMING MONTHS

- The HAT Academies methodology will be updated and released before the end of the month to reflect requirements which will apply for the audit of accounting periods ending on 31 August 2023;
- A number of minor technical amendments, to reflect changes since its publication, will be processed to the HAT Corporate Audit methodology for release in the final quarter of this year; and
- The requirements of ISQM (UK) 2 and any additional amendments (for example, derived from the amendment to the Audit Regulations) will be filtered into the HAT Audit Regulatory and ISQM Procedures documentation.

TECHNICAL UPDATE

COMPANY LAW

NON-FINANCIAL REPORTING REVIEW

The Department for Business and Trade, working with the Financial Reporting Council ("FRC"), is conducting a review of the non-financial reporting requirements UK companies need to comply with to produce their annual report. Their Press Release highlights:

"This builds on the Smarter regulation to grow the economy policy paper which set out how the government would improve regulation across the board to reduce burdens and drive economic growth now that the UK has left the European Union. Our departure from the EU allows us to shape rules and processes so that they work for the UK's specific circumstances, including for non-financial reporting.

The review will also consider if current company size thresholds (micro, small, medium and large) that determine certain non-financial reporting requirements, and the preparation and filing of accounts with Companies House, remain appropriate."

HAT RESPONSE
This is an interesting and wide-ranging consultation which may ultimately have a significant impact on corporate reporting. HAT will monitor the outcome of this consultation and provide updates as appropriate.

AUDITING / ETHICAL / ASSURANCE STANDARDS

FRC SCALEBOX INITIATIVE

The FRC has announced the launch of a new initiative to assist smaller firms in conducting high-quality audits in the Public Interest Entity ("PIE") market and its Press Release states:

"The Scalebox initiative aims to promote competition and choice in the PIE audit market and support the FRC's role as an Improvement Regulator.

The FRC recognises that smaller firms, or those new to the PIE market, often face challenges in meeting regulatory expectations. The Scalebox will support firms in developing and maintaining audit quality as they grow or start out in the PIE audit market. It will also provide valuable insights from the FRC for firms that may come within the FRC's scope for the first time.

The Scalebox is overseen by a separate, independent team within the FRC's Audit Firm Supervision (AFS) team. It will focus its work on areas where common findings occur, where requirements are changing or where firms need to focus as they grow.

The types of activities that the Scalebox may undertake include:

- A review of aspects of completed audits to provide feedback on good practice and areas for improvement;
- A review of a particular element of a firm's system of quality control, including specific areas of audit methodology and audit approach; and
- A review of a firm's actual or proposed governance processes if it has chosen or is planning to adopt the Audit Firm Governance Code.

All firms currently in Tier 2 and Tier 3 for FRC Supervision purposes are eligible to join the Scalebox as well as firms intending to enter the PIE audit market."

ACTION FOR FIRMS
Any firm seeking to enter the PIE audit market should actively consider applying to join the Scalebox.

PROPOSED AMENDMENTS TO ISA (UK) 505 ~ EXTERNAL CONFIRMATIONS

The FRC has announced a proposal to update ISA (UK) 505 ~ External Confirmations and its Press Release states:

"The revisions reflect recent enforcement findings as well as ensuring that the standard reflects modern approaches to obtaining confirmations, with additional material on the use of digital platforms, enhanced requirements in relation to investigating exceptions and a prohibition on negative confirmations."

The four key proposed amendments (which, if they become effective, are proposed to apply to accounting periods commencing on or after 15 December 2024) are:

- Additional clarification on what constitutes an electronic external confirmation;
- Prohibition on the use of negative confirmations;
- Designing confirmations to provide evidence for relevant assertions; and
- Enhanced requirements in relation to investigating exceptions, which include considering:
  - Whether the exception is indicative of an increased risk of fraud;
  - Whether the exception is indicative of a deficiency in the entity's system of internal control; or
  - How any additional procedures will allow the auditor to obtain sufficient appropriate audit evidence.

PROFESSIONAL BODIES SUPERVISION

The FRC has released the following Press Release regarding its oversight of auditors:

"The FRC has announced that the Professional Oversight Team ("POT") has been restructured and will be known as the Professional Bodies Supervision ("PBS") team going forward. The change reflects an agreement made last year by the Board of the FRC for a new strategy for POT to deepen and strengthen our supervision of the Professional Bodies, building on the existing successful FRC supervision model for audit firms.

The new structure will enhance the leadership and management of PBS, which will oversee the five teams within PBS, namely:

- Supervision of Professional Bodies;
- Supervisory Functions;
- Qualification & Learning;
- Quality Assurance & International; and
- Operational Assurance.

These changes will enable us to prepare for the additional powers that will be established by ARGA to enhance the way FRC oversees the accountancy and actuarial professions."

ACCOUNTING STANDARDS

UK ENDORSEMENT OF IFRS 16 AMENDMENT

The UK Endorsement Board has approved for adoption a narrow-scope amendment, Lease Liability in a Sale and Leaseback—Amendments to IFRS 16, with an effective date of 1 January 2024. The Amendments are not likely to lead to a significant change in accounting practice.

Details of the amendment can be found on the UK Endorsement Board's website.

CONCLUSION OF ANNUAL REVIEW OF FRS 101

The FRC has issued Amendments to Basis for Conclusions FRS 101 Reduced Disclosure Framework – 2022/23 cycle, which brings to a close the 2022/23 annual review of FRS 101 Reduced Disclosure Framework. No amendments have been made to FRS 101 as a result of this review.

FRC THEMATIC REVIEW OF FAIR VALUE MEASUREMENT

The FRC has published its thematic review of fair value measurement and its Press Release states:

"Many IFRSs require or permit fair value measurements. The challenging economic environment and the risks posed by climate change may increase the degree of estimation uncertainty and management judgement in this area. Consequently, clear and transparent disclosures of fair value measurements are likely to become increasingly important.

The review highlights:

- Fair value measurements should use market participants' rather than the company's own assumptions. Whilst the transaction price usually reflects fair value, there may be circumstances where this is not the case, for example, in transactions with related parties. Companies should ensure that appropriate adjustments are made to the transaction price to ensure it reflects fair value in such cases;
- There is scope for improvement of the disclosures provided by many companies. The transparency of reporting about the valuation approach, underlying assumptions, management judgement and estimation uncertainty is key; and
- Companies should consider using specialist third party advice when valuing a material item and where there is no internal expertise.

Although the review focuses on disclosure matters, it includes two case studies to highlight measurement issues the FRC found in its routine monitoring of corporate reporting. To encourage improvement in the general quality of company disclosures, the review also includes examples of good practice, each of which demonstrates a particular characteristic of a better disclosure."

ACTION FOR FIRMS
This thematic review highlights key points which HAT also identify on file reviews. All firms should ensure the points raised are considered when preparing or auditing financial statements.

ANTI-MONEY LAUNDERING

AMENDMENT TO RUSSIAN SANCTIONS

The Russia (Sanctions) (EU Exit) (Amendment) (No. 2) Regulations 2023 (S.I. 2023 / 665) ("the Regulations") came into force on 20 June 2023. The Regulations are made under the Sanctions and Anti-Money Laundering Act 2018 ("the Act") to amend The Russia (Sanctions) (EU Exit) Regulations 2019 (S.I. 2019 / 855) ("the 2019 Regulations") (as amended). The Explanatory Note includes the following:

"The Regulations remove the existing definition of non-government controlled areas of the Donetsk and Luhansk oblasts, and substitutes a new definition of non-government controlled Ukrainian territory which includes also the additional territory of non-government controlled areas of the Kherson and Zaporizhzhia oblasts of Ukraine.

The expanded definition has the effect of extending existing finance, shipping and trade sanctions relating to the Autonomous Republic of Crimea and city of Sevastopol ("Crimea") and non-government controlled areas of the Donetsk and Luhansk oblasts, and relevant exceptions, to non-government controlled areas of the Kherson and Zaporizhzhia oblasts.

The Regulations also introduce a defence to the strict liability offence under section 68(1) of the Customs and Excise Management Act 1979 relating to the prohibition on exportation of certain goods to, or for use in, non-government controlled areas of the Donetsk, Kherson, Luhansk and Zaporizhzhia oblasts."

Separately, the Russia (Sanctions) (EU Exit) (Amendment) (No. 3) Regulations 2023 (S.I. 2023 / 713) came into force on 30 June 2023.

The key provision is Regulation 4, which, as set out in the Explanatory Note, introduces new exceptions to the prohibition on the provision of professional and business services to a person connected with Russia for the provision of auditing services.

ACTION FOR FIRMS
As legislation in this area is complex, should a firm seek to place reliance on this exception, it is recommended that legal advice is sought before accepting appointment.

UPDATED FATF LIST OF HIGH RISK THIRD COUNTRIES

The Financial Action Task Force ("FATF") have recently concluded their meeting by announcing an amendment to the jurisdictions under increased monitoring. Their Press Release states:

"Jurisdictions under increased monitoring are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. When the FATF places a jurisdiction under increased monitoring, it means the country has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. This list is often externally referred to as the "grey list". Following review, the FATF now also identifies Cameroon, Croatia and Vietnam."

It is expected that UK legislation will be updated shortly to reflect this change.

ICAEW / ACCA / REGULATORY

OVERVIEW OF ICAEW'S FINDINGS RELATING TO DPB LICENCE HOLDERS

The ICAEW has released a summary of findings in respect of regulatory visits during 2022, when consideration has been given to compliance with a firm's DPB licence.

Of particular note are the following findings:

- One quarter of the firms visited had not performed an effective annual (investment business) compliance review; and
- One sixth of the firms visited had not made appropriate disclosures to clients.

ACTION FOR FIRMS
All DPB licence holders (including those authorised by the ACCA) should ensure their procedures do not result in similar breaches being experienced.

REVISED ICAEW REQUIREMENTS REGARDING PRACTISING CERTIFICATES

ICAEW has updated its guidance on circumstances when a member will require to hold a Practising Certificate. These amendments apply from 1 January 2024 and a summary of the changes is included on the ICAEW website, which states:

"In the new guidance:

- References to the EEA have been removed following the UK's exit from Europe;
- The definition of "UK" has been clarified;
- The 10% de minimis limit has been removed from the guidance to align with anti-money laundering regulations;
- The £100 de minimis limit has been removed with regards to a minimum earnings level per assignment;
- Bookkeeping services have been retained as accountancy services and guidance on accountancy and reserved activities has been updated;
- The guidance for members providing services to charities has been improved; and
- Guidance on public practice scenarios has been updated.

Additionally, the name of the guidance has been changed from the ICAEW Statement on engaging in public practice to the ICAEW Statement on members engaging in public practice. This reflects the fact that the statement should be read by all members and that it is the responsibility of all members to ensure they comply."

ACTION FOR FIRMS
Any ICAEW member who does not have a Practicing Certificate but is a senior person in their firm or who provides accountancy services outside of their employment should carefully review the revised requirements.

ICAEW AUDIT NEWS 74

The ICAEW has issued Audit News 74.

Although there is specific no new information, it is a useful aide-memoire of recent changes and as such, should be referred to by all ICAEW registered audit firms to ensure that nothing has been missed.

CHARITIES

CHARITIES ACT 2022 PROVISIONS COMING INTO FORCE

The Charities Act 2022 (Commencement No. 2 and Saving Provisions) Regulations 2023 (SI 2023 / 643) came into force on 14 June 2023, reflecting the latest set of changes being introduced by the Charities Act 2022 coming into force and these are explained in the following Charity Commission Press Release:

"The Charity Commission has updated its existing guidance to reflect these changes, which includes flexibility for trustees when seeking to dispose of charity land and new powers around the use of permanent endowment.

Changes now in place include simplified legal requirements that charities must comply with before selling, transferring or leasing land, and new statutory powers to enable:

- Charities to spend, in certain circumstances, a proportion or all of their permanent endowment fund where the market value of the fund is £25,000 or less, without Commission authorisation;
- Charities to borrow, in certain circumstances, up to 25% of the value of their permanent endowment fund without Commission authorisation;
- Charities that have opted into a total return approach to investment to use permanent endowment to make social investments with a negative or uncertain financial return, provided any losses are offset by other gains;

- The Commission to direct a charity to stop using a working name if it is too similar to another charity's name or is offensive or misleading; and
- The Commission to delay registration of a charity with an unsuitable name or delay entry of a new unsuitable name onto the Register of Charities. Working with the principal regulator, the Commission can also use these naming powers on exempt charities.

The regulator's updated guidance now reflects several changes to the legal requirements when disposing of land (selling, transferring or leasing charity land), which are aimed at making the process easier for charities. For example, the category of designated advisers who can provide charities with advice on certain disposals has been widened. A trustee, officer or employee can provide advice on a disposal if they meet the relevant requirements.

Additionally, trustees now have discretion to decide how to advertise a proposed disposal of charity land and charities are no longer required to get Commission authority to grant a residential lease to a charity employee for a short periodic or fixed term tenancy.

The regulator's updated guidance on permanent endowment sets out the powers available to spend or borrow from permanent endowment. The guidance now also includes some examples to help trustees understand the requirements."

OTHER AREAS

UPDATE FOR ATOL REPORTING ACCOUNTANTS

The ICAEW has issued ATOL News 4, which includes the following important reminders from the Civil Aviation Authority ("CAA") for ATOL Reporting Accountants ("ARA"):

- If amendments are required to the Annual Accountants Report ("AAR") Part 1 for example, where the revenue and passenger numbers relating to the ATOL Holder APC return are incorrect, then the ARA must decline the AAR Part 1. This allows for a complete trail of the reporting, from the incorrect report to the subsequent approved reporting, by the ARA. To make amendments, ARAs must first decline the initial report;
- The CAA has identified a number of errors being made in the initial AAR Part 2 report by the ATOL holder where the reported information does not agree to the financial statements / accounts. Where the figures do not agree, the ARA should decline an incorrect report, which would send the ATOL holder a message to correct it and resubmit. ARAs should ensure that the reported figures in Part 2 agree to the financial statements / accounts of the relevant entity as applicable;
- The CAA has updated training for Accountable Persons and ARAs to reflect the changes to the ATOL Regulations in 2018 and is available now. More information is on the CAA's website and some helpful FAQs which include guidance on how to access the training. Although the CAA has not mandated this training, ARAs are strongly encouraged to complete this to ensure they are aware of the key changes and continue to be aware of their roles and responsibilities and to ensure firms comply with competency requirements in the ICAEW Licensed Practice Handbook.

Relevant links to the CAA website are:

- CAA webpage on AAR and information for auditors and accountants; and
- Information on the CAA webpage for AP training.

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