Technical Digest

September 2023

Edited by Andrew Jarvis

HAT
Group of Accountants

CENTRALPOINT, 45 BEECH STREET, LONDON, EC2Y 8AD

WELCOME

Welcome to your September technical digest. I hope you all had a good summer. The HAT team have been busy working on updates to our audit methodology, due for release in October. It was also fantastic to welcome so many new starters to our introductory accounting and audit courses in August and we look forward to supporting them over the coming years.

As part of our Quarter 3, Accounting and Audit Update we covered the new ICAEW CPD requirements, which are effective from 1 November this year. We have had lots of questions about how these will work in practice, and we are delighted to be hosting a short webinar on Wednesday 11 October where Andrea Cook (Director, CPD and Events) and Liz Shaw (Senior Manager, Quality Assurance) will be able to deal with some of these questions. You can register for the webinar here. If you have questions, you would like Andrea and Liz to answer, please submit them here.

We are also pleased to add two new CPD courses to our calendar later this year. 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.

Andrew Jarvis, Managing Director

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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
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
Quarter 4 Audit and Accounts Update 9.30am – 11.15am	Andrew Jarvis	Online	£95	7 December 2023
AML - Introduction: Understanding your Responsibilities 2:00pm – 4:00pm	Andrew Jarvis	Online	£90	7 December 2023

CAREER DEVELOPMENT COURSES

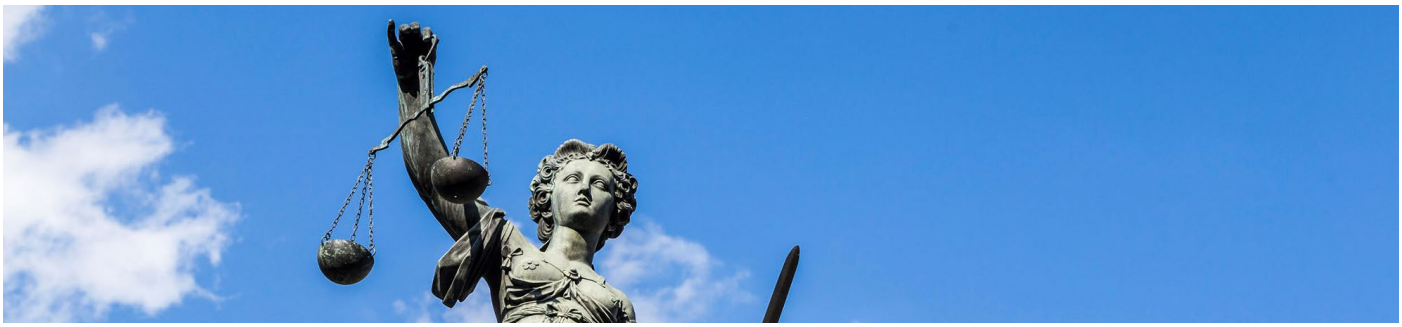
Our popular Career Development course programme covers the skills needed for trainees and newly qualified staff. Full details are available here and a timetable for 2024 will be published shortly.

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 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
TM 04/23	17 July 2023	HAT Academies Methodology – August 2023

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 requirements of ISQM (UK) 2, along with changes required following publication of the revised ICAEW CPD Regulations, are being filtered into the HAT Audit Regulatory and ISQM Procedures documentation, which will be released early next quarter;
- There are a small number of technical amendments which are required to the HAT Corporate Audit methodology. These are being finalised and will also be released early next quarter, with amendments affecting the HAT Charities / Pensions methodologies then being filtered into that documentation; and
- The above amendments (for ISQM 2 and technical changes to the HAT Corporate Audit methodology) are also relevant in Gibraltar and time has been set aside to update and then release documentation next quarter.

TECHNICAL UPDATE

COMPANY LAW

PROPOSED AMENDMENTS TO COMPANIES ACT 2006 FOR PIES AND 750 / 750 COMPANIES:

The Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023 have been laid in draft for approval by Parliament. The proposals (which are expected to be passed into law by the end of the year) will require the very largest UK companies to provide additional disclosures in their financial statements. The regulations include the following key points:

- **Definition of a Company with a high level of employees and turnover:** a new definition will be included in the Companies Act 2006 which will capture individual companies or groups (including sub-groups) which have 750 or more employees and annual turnover of £750,000,000 or more. Note that the draft legislation does not indicate that a company with a high level of employees and turnover will be designated as a public interest entity;
- **Effective date:** the changes will apply to companies with equity listed on a UK regulated market for accounting periods commencing on or after 1 January 2025 and for all other companies (that meet the definition of a company with a high level of employees and turnover) for accounting periods commencing on or after 1 January 2026;
- **Distributable profits:** additional disclosures regarding distributable profits (including the figures as at the beginning and the end of the financial year and movements in the year) will be required in the notes to the financial statements. The consequence of this is that they will be subject to statutory audit;
- **Resilience statement:** a new resilience statement (forming part of the strategic report) will be required, which must summarise the company's strategic approach to managing risk and building or maintaining resilience over the short, medium and long-term. For these purposes, short-term must equal the period covered in a company's going concern statement and medium-term means a period aligned with the company's strategic, business planning and investment cycle;
- **Audit and assurance policy statement:** the directors' report should include an audit and assurance policy statement (in the first year and then on a triennial basis) setting out whether a company is planning to obtain assurance on: its company reporting beyond its statutory audit; and details of its internal financial controls;
- **Material fraud statement:** the directors' report should contain a material fraud statement which summarises the directors' assessment of the risk of material fraud and a description of the main measures in place to prevent and detect the occurrence of material fraud. Fraud is material when its nature or magnitude could influence the decisions a reasonable shareholder would take in connection with their shareholding in the company; and
- **Distribution policy:** in their directors' reports, there should be a description of the policy towards the amount and timing of distributions to shareholders over the short and medium-term as defined in the resilience statement and how that policy has been implemented during the financial year. It should also describe the key risks and constraints, including legal constraints, relevant to implementing and sustaining the policy.

HAT RESPONSE
HAT will provide an update when these changes are enacted and will amend our documentation as appropriate.

AUDITING / ETHICAL / ASSURANCE STANDARDS

PROPOSED REVISIONS TO THE FRC ETHICAL STANDARD:

The Financial Reporting Council ("FRC") has issued a consultation on revisions to the FRC's Ethical Standard (which runs until 31 October 2023) to further enhance and clarify the principles of integrity, objectivity and independence auditors must abide by. Its Press Release states:

"In the FRC's 2022 position paper on audit market reform, the FRC committed to revising the Ethical Standard, and to consult at the same time about the withdrawal of the Other Entities of Public Interest (OEPI) category introduced in 2019. This is in light of the government's proposed changes to the statutory Public Interest Entity (PIE) definition.

The proposed revisions to the Ethical Standard enhance prohibitions where an audit firm's independence could be threatened by an economic over reliance on fees from specific entities that are connected. Other changes to prohibitions reflect relevant findings from audit inspections and enforcement cases.

Additional changes reflect significant developments in the International Ethics Standards Board for Accountants (IESBA) Code since the FRC last revised the Ethical Standard in 2019. These ensure that the UK's Ethical Standard is no less stringent than the international code.

The new standard has also been revised to ensure breaches of ethical standards are reported to the FRC on a more timely basis."

Among the accompanying documents, it is stated that the revised FRC Ethical Standard is less complex and allows for enhanced compliance, as well as being more consistent with the IESBA Code of Ethics (from which ethical requirements in the UK are derived).

For audit firms who do not act for PIEs or other listed entities, among the proposed amendments are the requirement to consider common ownership, rather than merely groups for the 10% / 15% fee thresholds, along with needing to consider tax services provided to a majority owner of an unlisted entity.

It is proposed that the revised FRC Ethical Standard will be effective from 15 December 2024, although for accounting periods commencing before this date, firms may complete such engagements in accordance with current ethical requirements. Therefore, other than for short periods, the revisions are proposed to apply to December 2025 year ends.

HAT RESPONSE
These changes will impact some audit engagements for many firms. We will monitor the responses to the consultation and update you once the new rules are finalised.

ACCOUNTING STANDARDS

AMENDMENTS TO FRS 101 / FRS 102:

The FRC has issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced Disclosure Framework – International tax reform – Pillar Two model rules*.

By way of background, the OECD's Pillar Two model rules introduce a global system of interlocking top-up taxes that aim to ensure that large multinational groups (typically those with revenue in excess of €750 million) pay a minimum amount of income tax.

The FRC Press Release states:

"The OECD's Pillar Two model rules introduce a global system of interlocking top-up taxes that aim to ensure that large multinational groups pay a minimum amount of income tax.

The amendments to FRS 102 introduce a temporary exception to the accounting for deferred taxes arising from the implementation of the OECD's Pillar Two model rules, alongside targeted disclosure requirements. The temporary exception is effective immediately and the disclosure requirements are effective for accounting periods beginning on or after 1 January 2023, with early application permitted.

The amendments to FRS 101 provide an exemption from some of the disclosure requirements in IAS 12 Income Taxes, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Links to the relevant documents can be found below:

- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland;
- FRS 101 Reduced Disclosure Framework; and
- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced Disclosure Framework – International tax reform – Pillar Two model rules."

ACTION FOR FIRMS
Where a client is impacted by the Pillar Two model rules, the impact of this, including the above amendments must be fully understood by both preparers of financial statements and auditors.

UK ADOPTIONS OF IFRS AMENDMENTS:

The UK Endorsement Board ("UKEB") has adopted two sets of amendments to International Financial Reporting Standards. These are (each of which is summarised in an accompanying Press Release):

IAS 12: Income Taxes:

"The UKEB has adopted the Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules, issued by the IASB in May 2023. The Amendments introduce a temporary mandatory exception from accounting for deferred taxes arising from the Pillar Two model rules and a requirement to disclose that the exception has been applied, both of which are applicable immediately and retrospectively.

They also introduce further targeted disclosure requirements, effective for annual reporting periods beginning on or after 1 January 2023. An entity is not required to make these disclosures for any interim period ending on or before 31 December 2023.

The text of the UK-adopted international accounting standard for the Amendments can be found here."

IAS 1: Presentation of Financial Statements:

"The UKEB has adopted the Amendments to IAS 1:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1), issued by the International Accounting Standards Board (IASB) in January 2020; and
- Non-current Liabilities with Covenants (Amendments to IAS 1), issued by the IASB in October 2022.

The Amendments clarify the classification of liabilities as current or non-current and have an effective date of 1 January 2024, with earlier application permitted.

The UK-adopted international accounting standard text for these amendments can be found here."

DRAFT LLP SORP:

The CCAB has published a draft of its LLPs SORP for comment before 27 October 2023, which is proposed to be effective for accounting periods commencing on or after 1 January 2024. Its accompanying Press Release advises:

"The underlying purpose of the SORP is to deal with issues that are specific to LLPs and ensure that, as far as possible, LLPs present financial statements that are comparable with those of other entities. The LLP SORP Steering Group is proposing to add guidance for the following areas:

Amounts payable to former members:

Guidance has been added to consider certain narrow scenarios in which Section 26 Share-based Payment of FRS 102 might apply.

Sharing of group profits – interests in subsidiaries:

Guidance has been added to cover cases where a parent LLP has a subsidiary that is also an LLP and that will therefore need to be consolidated into the parent's group accounts. Guidance is proposed in relation to the appropriate treatment of members' debt and equity interests in the subsidiary LLP for the purpose of determining whether a non-controlling interest in the net assets of the group is recognised.

Automatic division of profits to members who do not provide any services to the LLP:

An LLP may have two distinct types of members, all providing capital to it: those that provide services in return for a share of profits and those that do not provide services, but still receive a share of profits. Guidance has been added to the SORP on the treatment of profits which are automatically divided to members who do not provide any services to the LLP.

In addition to the above proposed changes, the LLP SORP has been updated to reflect the new requirements for certain LLPs to provide climate-related financial disclosures in either the strategic report, if one is prepared, or in the energy and carbon report otherwise."

HAT RESPONSE
We welcome the above clarifications, which deal with areas of the SORP where we see differences of interpretation in practice. Once these proposals are finalised our LLP documentation will be updated.

ANTI-MONEY LAUNDERING

CONSULTATION TO REFORM AML SUPERVISION IN THE UK:

HM Treasury has commenced a consultation on reforming anti-money laundering and counter-terrorism financing ("AML / CTF") supervision. Its Press Release states:

"Currently, the AML / CTF supervisory system is made up of three statutory supervisors - the Financial Conduct Authority, the Gambling Commission and HMRC - and 22 professional body supervisors who supervise the legal and accountancy sectors. These supervisors ensure firms and individuals comply with the Money Laundering Regulations ("MLRs"). They take enforcement actions if the MLRs are breached and ensure only fit and competent individuals hold management roles in regulated businesses.

The 2022 Review of the UK's AML / CTF regulatory and supervisory regime concluded that while there had been continued improvement to the regime, some weaknesses in supervision may need to be addressed through structural reform. The Review set out four possible models for a future AML / CTF supervisory system. This consultation further develops these four models, assessing them against three consultation objectives. The consultation does not include a policy preference and invites respondents' views regarding the potential benefits and disbenefits of each potential reform model.

Additionally, we are seeking views on whether to expand requirements on supervisors and their regulated populations relating to sanctions compliance.

The consultation will be open for three months, closing on 30 September 2023."

The consultation sets our four potential supervision models going forward:

- Enhancing the role of OPBAS in supervising the existing professional bodies in their AML supervision responsibilities;
- Significantly reducing the number of professional bodies able to supervise member firms for AML purposes;
- Introducing a new single supervisory body across the accounting and legal sectors;
- Introducing a singe supervisory body across the entire regulated sector.

HAT RESPONSE
This consultation could result in a fundamental change in how firms will be supervised for AML purposes. HAT will monitor the results of this consultation and advise firms accordingly.

ICAEW / ACCA / REGULATORY

PROPOSED AMENDMENTS TO INSTITUTES' AUDIT REGULATIONS:

It is proposed that the Institutes' UK Audit Regulations be amended and the consultation, which runs until 27 October 2023 highlights the following as being the key proposals:

- A compulsory requirement for audit-registered sole practices (both individual sole practitioners and single-director corporate practices) to appoint an alternate who would take over in the event of the death or incapacity of the practitioner (this is currently strongly recommended, but is not compulsory);
- Additional material to clarify that registered auditors must ensure that they and their staff comply with their professional body's continuing professional development requirements; and
- The ability for the Audit Registration Committee to impose regulatory penalties and restrictions on responsible individuals.

CHARITIES

ACADEMY TRUST HANDBOOK 2023 PUBLISHED:

The Education and Skills Funding Agency ("ESFA") has published the Academy Trust Handbook 2023 which came into effect on 1 September 2023 and its Press Release summarises the changes as being:

"This years' handbook is a materially shorter and sharper document. It contains several key changes, including:

- Related party transactions: an increase in the threshold beyond which ESFA approval is required for related party transactions from £20k to £40k;
- Annual reporting: removing the requirement for explanations in annual accounts when holding fewer than 6 board meetings per year;
- Budget setting: providing an additional month to submit annual budget forecast returns;
- Budget monitoring: providing more discretion in the distribution of management accounts; and
- Sustainability: confirming that salary sacrifice schemes can be set up for electric vehicles, in most cases without our approval.

We have also published a Schedule of Musts for 2023. These are the requirements in the Academy Trust Handbook brought together into one list: the 'musts'. It abbreviates these requirements and so cannot be used as a substitute for the full handbook. References to the relevant sections are included, which must be read in full."

HAT RESPONSE
Our Academies pack was updated to reflect these changes in July 2023.

CLIENT MONEY

FINANCIAL SERVICES AND MARKETS ACT 2023:

The Financial Services and Markets Bill has received Royal Assent and the Government has summarised its impact in the following Press Release:

"The Financial Services and Markets Act 2023 is central to delivering the Government's vision to grow the economy and create an open, sustainable, and technologically advanced financial services sector.

It seizes the opportunities of Brexit by tailoring financial services regulation to fit UK markets. The Act bolsters the competitiveness of the UK as a global financial centre and delivers better outcomes for consumers and businesses.

It contains new powers – available due to Brexit – that will set the path for reforms to Solvency II, which will unlock around £100 billion for productive investment and help cultivate innovation and grow the economy.

The Act also introduces new secondary objectives for the Financial Conduct Authority and the Prudential Regulation Authority – to facilitate the growth and international competitiveness of the UK economy. This will be backed up by changes to enhance the scrutiny and accountability of the regulators, including ensuring regular reporting and a greater focus on cost-benefit analyses.

The ground-breaking Act also:

- Enhances the scrutiny of the financial services regulators to ensure clear accountability, appropriate democratic input, and transparent oversight;
- Removes unnecessary restrictions on wholesale markets – implementing the key outcomes of the Wholesale Markets Review;
- Protects free access to cash in law and introduces crucial protections for victims of Authorised Push Payment scams;
- Enables the regulation of crypto-assets to support their safe adoption in the UK; and
- Establishes 'sandboxes' that can facilitate the use of new technologies such as blockchain in financial markets."

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