Technical Digest

March 2024

Edited by Andrew Jarvis

HAT
Group of Accountants

CENTRALPOINT, 45 BEECH STREET, LONDON, EC2Y 8AD

WELCOME

We are delighted to welcome two new members of our training and technical team. Liaqat Mir has joined us after 16 years with SWAT and Mercia, where he was involved in performing file reviews and Practice Assurance compliance reviews (including AML, DPB and Probate), as well as providing a wide range of training courses covering audit and specialist areas. Kate McCaffrey has joined us from the BDO training team, having previously worked in various technical and training roles, including as Technical & Training Director for Chantrey Vellacott. Both are looking forward to visiting many of you over the coming months whist Kate will also be taking a lead on developing our training programme. Together with Getrude Nota who joined us last July and our experienced team of myself, Roger, Simon, Rob and Adam, we now have a strong team in place to continue providing the support you expect and to develop exciting new services.

This week has seen the announcement that the Government plans to increase size limits for all UK companies by around 50%. Details are still unclear, but we summarise our current understanding in our Technical Update below. We will of course update you over the coming months as the specific changes become clearer. Together with the next stages of the implementation of the Economic Crime and Corporate Transparency Act and finalisation of the periodic review of FRS 102, 2024 is going to be a busy year for developments in company reporting.

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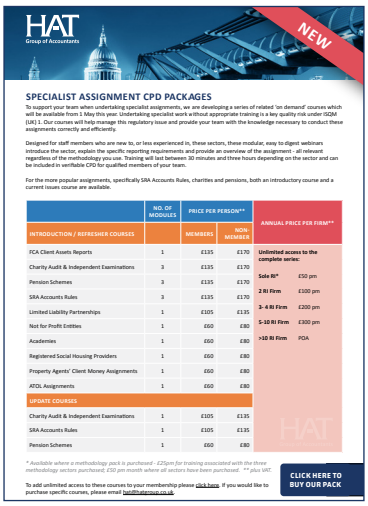
anna@hatgroup.co.uk

General enquiries

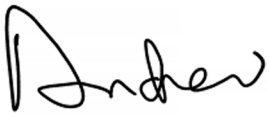
hat@hatgroup.co.uk

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



NEW FOR 2024: HAT SPECIALIST CPD BUNDLE

Undertaking specialist work without appropriate training is a key quality risk under ISQM (UK) 1. To help manage this regulatory issue and provide your team with the knowledge necessary to conduct these assignments correctly and efficiently we have developed a series of specialist assignment, on demand, courses. Training will last between 30 minutes and three hours depending on the sector and can be included in verifiable CPD for qualified members of your team. Full details of these courses are available here.



Andrew, Jarvis - Managing Director

UPCOMING COURSES AND EVENTS

CPD COURSES

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

COURSE	PRESENTER	VENUE	DATES
Introduction to Solicitors Accounts Rules Assignments 9.30am – 1.00pm	Adam Loake	In Person	16 April 2024
AML 2024 Update 2.00pm – 3.30pm	Andrew Jarvis	Online	24 April 2024
AML Compliance: A guide for Senior Management 2.00pm – 4.00pm	Andrew Jarvis	Online	23 May 2024 7 November 2024
Being an Effective R.I 9.30am – 12.30pm	Andrew Jarvis	London	2 October 2024

HAT QUARTERLY CPD UPDATES

Covering current topics in the areas of practice management, financial reporting and audit.

COURSE	SPEAKERS	DATE
Quarter 2 2024	A member of the HAT team	Thursday 25 April 2024
Quarter 3 2024		Thursday 18 July 2024
Quarter 4 2024		Thursday 24 October 2024

CAREER DEVELOPMENT COURSES

Our popular Career Development course programme covers the skills needed for trainees and newly qualified staff. Full details including proposed dates for 2024 are provided below.

COURSE	SUBJECT	DATE	VENUE	NOTES
A	Introduction to Accounting	19 – 23 August 2024	London	NB: CHANGED DATE
B	Introduction to Auditing	27 - 30 August 2024	London	NB: CHANGED DATE
AB	Advanced Accounting	27 – 28 June 2024	London	We can also run tailored courses covering these topics in house for you. Please contact Kate or Andrew for more information.
C	Practical Auditing	17 – 24 June 2024	Ipswich	
CA Tax	A Practical Introduction to UK Tax	10 July 2024	London	
CA FR	A Practical Introduction to UK GAAP	11 – 12 July 2024	London	
D	Becoming an Effective Audit Senior	13 - 17 May 2024	Norwich	
E	Becoming an Effective Supervisor	12 – 15 November 2024	Eastbourne	
Managers	Managers Course	22 – 25 October 2024	TBC	

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
IFRS Update	Jeremy Williams	3 hours
Acting for FCA-regulated Firms	Jeremy Williams	3 hours
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
Charities Update for Auditors and Independent Examiners (2024 version)	Andrew Jarvis	2 hours
Introduction to Solicitors Accounts Rules Assignments	Andrew Jarvis	3.5 hours
SRA Accounts Rules Update (2024 version)	Andrew Jarvis	2 hours
AML Compliance: A guide for Senior Management (2023 version)	Andrew Jarvis	2 hours
2023 Anti-Money Laundering Update	Andrew Jarvis	1.5 hours
DPB: Know Your Limits (2023 update)	Andrew Jarvis	1 hour

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.

SPECIALIST ASSIGNMENT CPD PACKAGES

To support your team when undertaking specialist assignments, we are developing a series of related 'on demand' courses which will be available from 1 May this year. Undertaking specialist work without appropriate training is a key quality risk under ISQM (UK) 1. Our courses will help manage this regulatory issue and provide your team with the knowledge necessary to conduct these assignments correctly and efficiently.

Designed for staff members who are new to, or less experienced in, these sectors, these modular, easy to digest webinars introduce the sector, explain the specific reporting requirements and provide an overview of the assignment - all relevant regardless of the methodology you use. Training will last between 30 minutes and three hours depending on the sector and can be included in verifiable CPD for qualified members of your team.

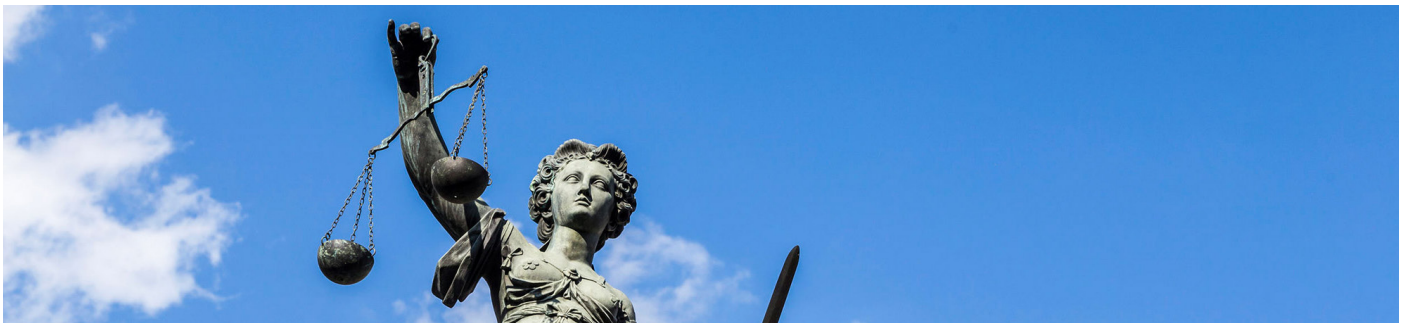
For the more popular assignments, specifically SRA Accounts Rules, charities and pensions, both an introductory course and a current issues course are available.

	NO. OF MODULES	PRICE PER PERSON**		ANNUAL PRICE PER FIRM**
INTRODUCTION / REFRESHER COURSES		**MEMBERS**	**NON-MEMBER**	
FCA Client Assets Reports	1	£135	£170	**Unlimited access to the complete series:**
Charity Audit & Independent Examinations	3	£135	£170	
Pension Schemes	3	£135	£170	**Sole RI*** £50 pm
SRA Accounts Rules	3	£135	£170	**2 RI Firm** £100 pm
Limited Liability Partnerships	1	£105	£135	**3- 4 RI Firm** £200 pm
Not for Profit Entities	1	£60	£80	**5-10 RI Firm** £300 pm
Academies	1	£60	£80	**>10 RI Firm** POA
Registered Social Housing Providers	1	£60	£80	
Property Agents' Client Money Assignments	1	£60	£80	
ATOL Assignments	1	£60	£80	
UPDATE COURSES				
Charity Audit & Independent Examinations	1	£105	£135	
SRA Accounts Rules	1	£105	£135	
Pension Schemes	1	£60	£80	

** Available where a methodology pack is purchased - £25pm for training associated with the three methodology sectors purchased; £50 pm month where all sectors have been purchased. ** plus VAT.*

To add unlimited access to these courses to your membership please click here. If you would like to purchase specific courses, please email hat@hatgroup.co.uk.

CLICK HERE TO BUY OUR PACK



UPDATES TO THE HAT METHODOLOGIES

The following updates have been released this year.

REFERENCE	DATE	CONTENT
TM 04/23	17 July 2023	HAT Academies Methodology – August 2023
TM 05/23	13 October 2023	ISQM (UK) 2 – Engagement Quality Reviews
TM 06/23	13 October 2023	HAT Corporate Audit methodology – January 2022 (10-23 Update)
TM 07/23	13 October 2023	HAT Groups Methodology – January 2022 (10-23 Update)
TM 08/23	21 December 2023	HAT Charities Methodology - January 2022 (12-23 Update)
TM 01/24	31 January 2023	Journal Testing Example Working Paper
TM 02/24	6 February 2024	HAT Pension Schemes Methodology – January 2022 (02-24 Update)
TM 03/24	12 February 2024	HAT Not for Profit Entities Methodology – January 2022 (02-24 Update)

Summaries of the changes made are freely available 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

- To reflect the new ICAEW CPD requirements (which closely align with current ACCA CPD requirements), we are finalising the content for our new Specialist CPD Package, which is launching on 1 May 2024;
- Looking forward to amendments required to HAT's documentation this year, HAT has undertaken a detailed review of the amendments to ISA (UK) 600 for group audits (including when there are component auditors). Amendments required to the HAT Groups methodology will be processed shortly; and
- Time will be set aside to review the amendments to existing practice required by the FRC Ethical Standard 2024, which comes into force on 15 December 2024 and in respect of statutory audits, for accounting periods commencing on or after that date.

TECHNICAL UPDATE

COMPANY LAW

COMPANY SIZE THRESHOLDS TO INCREASE:

Following an policy announcement by the Prime Minister, the ICAEW have posted that company size thresholds are expected to increase later in the year, although there currently does not appear to be confirmation of this from the Department for Business and Trade. Their article includes the following:

"The government intends that companies will be able to benefit from the changes for financial years starting on or after 1 October.

Micro entity thresholds will move from not more than £632,000 turnover to not more than £1m. For small, it will increase to not more than £15m turnover, from £10.2m. The upper medium threshold will move to not more than £54m. Everything above that will classify as a large company.

The government intends to consult later this year on amending the definition of a medium-sized company for company reporting. The threshold on the maximum number of employees that classifies a medium-sized company would increase from 250 to 500. It will also consult on exempting medium-sized companies from producing a strategic report and taking smaller public interest entities out of audit tendering and rotation requirements."

HAT RESPONSE
These proposals will have a significant impact on firms and their clients. It is frustrating that the precise details are still unclear, and it may be that some elements are still subject to consultation. We will monitor the position and update you during our Quarter 2 CPD Updates.

COMPANIES HOUSE CHANGES COMING INTO FORCE:

The Economic Crime and Corporate Transparency Act 2023 (Commencement No. 2 and Transitional Provision) Regulations 2024 (S.I. 2024 / 269) came into force on 4 March 2024. These changes are summarised by Companies House and primarily fall within two key areas:

- Improving the quality of data on Companies House registers, with one of the key changes being the requirement for an appropriate address to be used as a company's Registered Office address, which can no longer be a PO Box; and
- Changes to requirements regarding confirmation statements, which from 5 March 2024 have to be delivered electronically.

In addition, The Small Business, Enterprise and Employment Act 2015 (Commencement No. 8) Regulations 2024 (S.I. 2024 / 270) came into force on 4 March 2024. This brings into force section 87 of the Act which requires all company directors to be a natural person, but this also contains a power for the Secretary of State to make provision in regulations for cases in which a person who is not a natural person may be appointed a director of a company.

Separately, The Limited Liability Partnerships (Application of Company Law) Regulations 2024 (S.I. 2024 / 234) also came into force on 4 March 2024 and these regulations apply the requirements of the Economic Crime and Corporate Transparency Act 2023 already enacted, insofar as they are relevant to limited liability partnerships.

ACTION FOR FIRMS
This Act will have a significant impact on Company Secretarial Services offered to clients and it is important to ensure relevant members of the team have a clear understanding of the impact of these changes.

INCREASES TO COMPANIES HOUSE FEES:

The Registrar of Companies (Fees) (Amendment) Regulations 2024 (S.I. 2024 / 155) and The Registrar of Companies (Fees) (Register of Overseas Entities) Regulations 2024 (S.I. 2024 / 153) have both been enacted and they come into force on 1 May 2024.

Both Statutory Instruments amend fees payable to Companies House. These are summarised in a table which has been published by Companies House, which also advises that Companies House fees are set on a cost recovery basis.

A selection of the more common charges payable to Companies House are:

CHARGE	TO 30 APRIL 2024	FROM 1 MAY 2024
Web / Software Incorporation	£10 – 12	£50
Confirmation Statement – Online	£13	£34
Confirmation Statement – Paper	£40	£62
Register of Overseas Entities – Update Fee	£120	£234

AUDITING / ETHICAL / ASSURANCE STANDARDS

PROPOSED ENHANCEMENTS TO "FRAUD ISA":

The International Auditing and Assurance Standards Board (IAASB) has proposed a significant strengthening of its standard on auditors' responsibilities relating to fraud. Whilst ISA (UK) 240 already extends beyond ISA 240, the proposals build upon and extend these enhancements. The IAASB's Press Release highlights that the following are the key changes from the existing ISA 240

"The proposed revisions to International Standard on Auditing 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, include:

1. Clarified auditor responsibilities relating to fraud in an audit;
2. Emphasised professional scepticism to ensure auditors remain alert to possible fraud and exercise professional scepticism throughout an audit;
3. Strengthened identification and assessment of risks of material misstatement due to fraud;
4. Clarified response to fraud or suspected fraud identified during the audit;
5. Increased ongoing communication with management and those charged with governance about fraud;
6. Increased transparency about auditors' responsibilities and fraud-related procedures in the auditor's report; and
7. Enhanced audit documentation requirements about fraud-related procedures."

HAT RESPONSE
We will continue to monitor developments in auditing standards and update you when proposals are finalised.

ACCOUNTING STANDARDS

FRC THEMATIC REVIEW OF PRIVATE COMPANY REPORTING:

The FRC has published its thematic review of reporting by the UK's largest private companies and its Press Release states:

"Overall, the quality of reporting was mixed, particularly in terms of how clearly companies explained material matters that were complex or judgemental.

Large private companies are economically significant to the UK, providing a substantial number of jobs and supporting extensive supply chains. High quality reporting of key matters is important for users of their annual report and accounts.

Key findings that companies and their auditors should take into account for future annual reports are:

- The best strategic report disclosures focused on the matters that are key for an understanding of the company. These were explained in a clear, concise and understandable way that was consistent with the disclosures in the financial statements. Good quality reporting does not necessarily require greater volume;
- Better examples of judgement and estimates disclosures included detail of the specific judgement involved and clearly explained the rationale for the conclusion. The significance of estimation uncertainty was much more apparent when sensitivities were quantified; and
- Accounting policies for complex transactions and balances were often untailored, providing boilerplate wording. Entity-specific policies are particularly critical for revenue, where the better examples explained the nature of each significant revenue stream, the timing of recognition and how the value of revenue was determined."

ACTION FOR FIRMS
This report is essential reading for anyone dealing with larger corporate clients.

ANTI-MONEY LAUNDERING

AUTOMATIC ADOPTION OF FATF HIGH RISK JURISDICTIONS:

The Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2024 (S.I. 2024 / 69) came into effect on 23 January 2024.

These amend The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (S.I. 2017 / 692) by removing the list of high risk third countries, with a high risk third country now being a country named on either of the following lists published by the Financial Action Task Force ("FATF") as they have effect from time to time:

- High-Risk Jurisdictions subject to a Call for Action ("FATF Black List"); or
- Jurisdictions under Increased Monitoring ("FATF Grey List").

FATF consider additions to or removals from these lists at their Plenary Meetings, which are usually held in February, June and October each year, with changes to these lists being announced at the end of the FATF Plenary Meetings. Following the February Plenary Meeting, there are a number of changes to jurisdictions under increased monitoring and FATF's Press Release highlights:

"Jurisdictions under increased monitoring are actively working with the FATF to address the 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 implement an Action Plan to resolve swiftly the identified strategic deficiencies within agreed timeframes. At this Plenary, the FATF added Kenya and Namibia to the list of jurisdictions subject to increased monitoring.

The FATF Plenary congratulated Barbados, Gibraltar, Uganda and the United Arab Emirates for their significant progress in addressing the strategic AML / CFT deficiencies previously identified during their mutual evaluations. These jurisdictions had committed to implement an Action Plan to resolve swiftly the identified strategic deficiencies within agreed timeframes. These countries will no longer be subject to the FATF's increased monitoring process."

Iran, Myanmar and North Korea remain on the list of high-risk jurisdictions.

Following enactment of the Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2024 (S.I. 2024 / 69), these changes have immediate effect in UK law. Therefore, clients with links to Barbados, Gibraltar, Uganda and the UAE are no longer subject to enhanced due diligence measures, but those with links to Kenya and Namibia are. This has been confirmed by the immediate issue by HM Treasury of a Money Laundering Advisory Notice.

The FATF Calendar states the next meeting ends on 28 June 2024, which is likely to be the date on which the FATF Black / Grey Lists are next amended.

AMENDMENT TO RUSSIAN SANCTIONS:

The Russia (Sanctions) (EU Exit) (Amendment) Regulations 2024 (S.I. 2024 / 218) came into force on 1 March 2024.

The Explanatory Note indicates that these create new prohibitions in the Russia (Sanctions) (EU Exit) Regulations 2019 (S.I. 2019 / 855) relating to the import of certain diamonds which originate in Russia and are processed in a third country and ancillary activities relating to such imports.

ICAEW / ACCA / REGULATORY

ICAEW CLIENT MONEY DISCIPLINARY SANCTION:

A recent ICAEW Disciplinary Case found that a firm had breached a number of the ICAEW Client Money Regulations. The firm had:

- Provided a banking facility through its client money accounts, by processing transactions that did not relate to the accountancy services being provided by the firm for eleven clients;
- Held in excess of £10,000 for more than 30 days in the firm's general client account, for four clients on six separate occasions;
- Retained client monies for four clients, that were not required for accountancy-related transactions; and
- Failed to ensure that interest earned on the client account held for one client was credited to that client.

The firm received a severe reprimand, was fined £8,400 and required to pay costs amounting to £17,205.

ACTION FOR FIRMS
The operation of client accounts is a higher risk area for firms. We often find in monitoring visits that the relevant rules are not fully understood by those operating the client account. It is important that your annual compliance review is effective. Please contact us if you would like HAT to conduct these reviews for you.

CHARITIES

CHARITIES ACT CHANGES WHICH HAVE COME INTO FORCE:

It has been confirmed that the following changes included in the Charities Act 2022 came into force on 7 March 2024:

"Making changes to governing documents:

The new statutory power that trusts and unincorporated associations can use to make changes to their governing document is now in force.

If using this power, these charities will need to get the Commission's authority to make certain 'regulated alterations' in the same way as charitable companies and Charitable Incorporated Organisations (CIO).

Other changes that are in force include:

- How unincorporated charities must pass trustee and (where they have members) member resolutions when using the new power;

- That the Commission will apply the same legal test when deciding whether to give authority to charitable companies, CIOs, and unincorporated charities changing their charitable purposes; and
- A power for the Commission to give public notice to, or to direct charities to give notice to, regulated alterations they make.

Statutory powers for certain (small) unincorporated charities to change their governing document have been repealed.

Selling, leasing or otherwise disposing of charity land:

The following provisions are now in force:

- Provisions relating to disposals by liquidators, provisional liquidators, receivers, mortgagees or administrators;
- Provisions relating to the taking out of mortgages by liquidators, provisional liquidators, receivers, mortgagees or administrators; and
- Changes about what must be included in statements and certificates for both disposals and mortgages.

These provisions were due to come into force on 14 June 2023 but did not.

Charity mergers:

For certain mergers, new rules are now in force that will allow most gifts to charities that merge to take effect as gifts to the charity they have merged with. The statutory process for certain (small) unincorporated charity mergers has been repealed.

Other provisions:

The Act enables the Commission to:

- Authorise a trustee to receive or retain a payment for work completed for the charity where the Commission decides it would be inequitable for a trustee not to be paid; and
- Confirm defective or potentially defective trustee appointments."

HAT RESPONSE
The impact of these changes were covered in our recent Charities Update CPD course, which is available to purchase on demand. Where relevant, these changes will be incorporated into our Charities assignment documentation.

CLIENT MONEY

FCA FEEDBACK ON CASS REPORTS:

At a recent session hosted by ICAEW, a representative from the Financial Conduct Authority ("FCA") provided feedback relating to Client Assets Reports which they receive.

The FCA receive around 3,200 Client Assets Reports per annum and these cover entities which hold £16 trillion of custody assets and £195 billion of client money. On receipt, all Client Assets Reports are reviewed and triaged according to the risks identified. As many reasonable assurance Client Assets Reports are modified, it is possible that an unmodified opinion on a reasonable assurance assignment could be viewed as a higher risk scenario.

The key problem with audit quality which is experienced by the FCA relates to the drafting of Client Assets Reports and their observations in this area include:

- Lack of detail regarding items included in the breaches schedule which accompanies a reasonable assurance report and / or a lack of management comment regarding the identified breaches;
- Not all breaches being included in the breaches schedule, in particular, where there is a modification of the opinion relating to compliance at the period end, that this is not carried over as an "automatic" modification of the opinion for the following period; and

» When it will not be possible for the Client Assets Report to be provided to the FCA prior to the deadline for submission, there is not always timely notification of the delay and the reasons for these, as required by SUP 3.10.8.

On performing analysis of the audit firms which contribute to the above problems, the FCA regularly find that such firms only prepare a very small number of Client Assets Reports annually and as such, there may be concerns regarding competence. In the event of significant concerns about a particular Statutory Auditor, the FCA makes a complaint to that firm's professional body.

HAT RESPONSE
Completing FCA CASS assignments is a high risk area and the points above should be considered by all member.

SRA LAUNCHES REVIEW OF CONSUMER PROTECTION:

The Solicitors Regulation Authority ("SRA") has launched a review of its approach to consumer protection and its Press Release states:

"The review focuses on two main areas. Firstly, how to reduce the risk that something goes wrong at a regulated law firm that causes harm to consumers. We will be looking at how we identify risks in the sector, monitor and approve firms, as well as our rules and controls around firms holding client money.

Secondly, it will be looking at its compensation fund arrangements. The fund provides a safety net, as it can make good consumer losses when money has gone missing, for instance, due to a solicitor's dishonesty or the collapse of a firm. The fund has been coming under increased pressure in terms of claims. We will be exploring how we get the balance between appropriate protections for consumers, while making sure our approach does not push the cost of legal services up by too much.

The review comes in the wake of significant changes in the legal landscape.

There has been a large increase in the number of interventions – this is when we have to step in and close down a firm to protect clients. Last year we carried out more than twice as many interventions (65) as the year before (25). There is also a recent pattern of us having to intervene into larger firms - most recently with Axiom Ince - where the scale of the impact on consumers is much greater.

We have already started making some changes to address areas where there may be higher risks. For instance, we have increased inspections for 'accumulator' firms, who have grown quickly through acquiring other firms, to make sure their clients are not at risk.

We will be carrying out in-depth research with consumers to understand their priorities, as well as engaging extensively with consumer groups and the profession to identify the best approach to protecting consumers and serving the public interest over the long term."

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