Updates and Insights

September 2024

Edited by Andrew Jarvis

HAT

YOUR COMPLIANCE PARTNER

CENTRALPOINT, 45 BEECH STREET, LONDON, EC2Y 8AD

Welcome

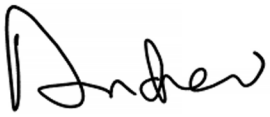
Welcome to your September HAT Updates and Insights. As we move towards Autumn, ICAEW members will be aware of their obligations under the new ICAEW CPD rules and will be considering whether they have obtained sufficient CPD in the current period. To support you (regardless of your professional body) we have a number of CPD courses running live over the coming weeks. This includes our popular IFRS Update and FCA Client Asset Reports presented for us by Jez Williams, a specialist in these sectors. As noted in our Technical Update a thorough understanding of FCA Rules is vital for anyone working on these specialist assignments.

For those audit team members looking to progress in their careers we also have our Effective Review Workshop for new managers and those reviewing audit files for the first time whilst our Becoming an Effective RI course discusses the differences between managing an assignment and leading it as an R.I. We also have a few places remaining on our residential Becoming an Effective Senior course at the start of October. This course, which has been comprehensively updated for 2024 provides a comprehensive guide for team members who will be leading assignments for the first time in the coming months.

Thank you to the firms who have been testing our new Caseware Cloud audit template over the summer. We are now working with Caseware on final enhancements and will be launching this exciting new product in the coming weeks. Please contact Getrude or me if you would like more information on this.

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

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Contact Us

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Technical Helpline

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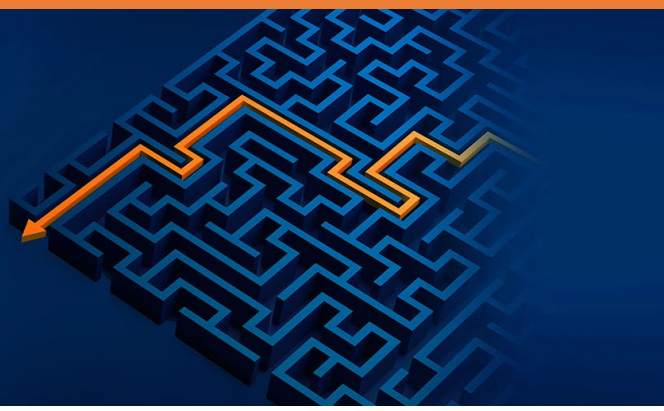
Recruitment and student exam training queries

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.



Upcoming Courses and Events

Our website provides details of all our current courses. Many of our technical introduction and update courses are also available to view on demand.

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.

SUBJECT	DATE	VENUE	NOTES
Introduction to Accounting	27 – 31 January 2025 1 – 5 September 2025	London	We can also run tailored courses covering these topics in house for you. Please contact Kate or Andrew for more information.
Introduction to Auditing	3 – 7 February 2025 8 – 11 September 2025	London	
Advanced Accounting	6 – 7 January 2025 5 – 6 June 2025	London	
Practical Auditing	14 – 18 October 2024 23 – 27 June 2025 20 – 25 October 2025	Residential – venue TBC	
A Practical Introduction to UK Tax	15 January 2025 23 July 2025	London	
A Practical Introduction to UK GAAP	16 -17 January 2025 24 – 25 July 2025	London	
Becoming an Effective Audit Senior	7 – 11 October 2024 12 – 16 May 2025 6 – 10 October 2025	Residential – venue TBC	
Becoming an Effective Supervisor	12 – 15 November 2024 1 – 4 April 2025	Residential – venue TBC	
Managers Course	TBC	TBC	

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. 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	**Sole RI*** £50 pm
Pension Schemes	3	£135	£170	**2 RI Firm** £100 pm
SRA Accounts Rules	3	£135	£170	**3- 4 RI Firm** £200 pm
Limited Liability Partnerships	1	£105	£135	**5-10 RI Firm** £300 pm
Not for Profit Entities	1	£60	£80	**>10 RI Firm** POA
Academies	1	£60	£80	
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 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)
TM 04/24	28 March 2024	HAT ATOL Assignments Methodology – March 2024
TM 05/24	25 July 2024	HAT Academies Methodology – August 2024

Summaries of the changes to our methodologies in the above updates are 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 the availability of our documentation within these platforms please contact us.

FUTURE CHANGES TO OUR METHODOLOGIES

It is expected that the update to the HAT Groups methodology, dealing with the revisions to ISA (UK) 600 which are effective for periods commencing on or after 15 December 2023, will be released within the next few weeks.

It is also expected that the update to the HAT LLP methodology will be released in a similar time frame.

To provide feedback on any HAT methodology please click here.

TRAINING ON THE HAT AUDIT METHODOLOGY

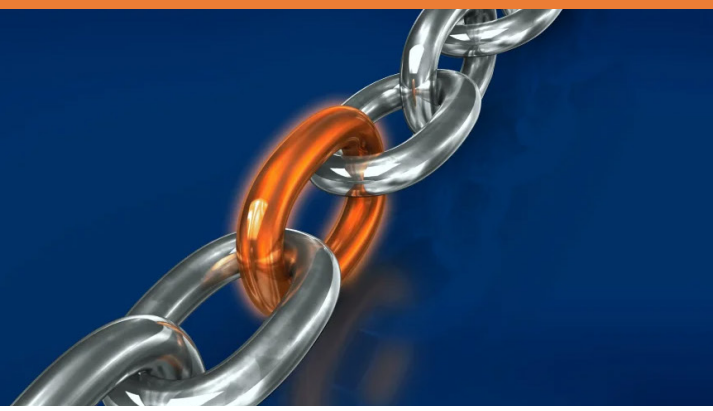
Our on-demand training course for new users of the HAT methodology forms part of your membership fee. This online training is broken down into 4 modules:

- Module 1: The "Basics" and the First Stages of Planning
- Module 2: Formal Planning Procedures
- Module 3: Audit Approach and Audit Sampling
- Module 4: Review and Finalisation

This training focusses solely on the HAT methodology and therefore is appropriate for all users, irrespective of the platform in which the methodology is used. For firms using Caseware, a range of pre-recorded training videos and supporting material is available, covering the functionality of the software and file navigation.

The material for this can be accessed from the "HAT Audit Methodology – An introduction for new users" folder within in our Members' Area at www.hatgroup.co.uk.

Technical Update



COMPANY LAW

THE KING'S SPEECH:

The Government's background briefing notes to the King's Speech, which was delivered on 17 July 2024, indicates that the Draft Audit Reform and Corporate Governance Bill will replace the Financial Reporting Council with a new regulator – the Audit, Reporting and Governance Authority. This statutory regulator will form a platform for other important changes which include:

- A wider remit, through extending Public Interest Entity ("PIE") status to the largest private companies and thus making sure the audits of those important businesses are high quality and giving early warning of financial problems;
- Removing unnecessary rules on smaller Public Interest Entities, making life easier for important smaller businesses by cutting requirements that are disproportionate;
- Powers to investigate and sanction company directors for serious failures in relation to their financial reporting and audit responsibilities, so there are consequences for putting forward dodgy accounts; and
- A regime to oversee the audit market, protect against conflicts of interest at audit firms, and build resilience so quality audit is available to all companies that need it.

THE CENTRE FOR PUBLIC INTEREST AUDIT:

The Centre for Public Interest Audit ("CPIA") is a new organisation that will bring together auditors from across the profession to shape best practice and inform the future of PIE audit in the UK. The CPIA will act as a standalone voice on behalf of all PIE auditors, providing a profession-wide perspective on current and future practice, alongside clear-cut recommendations of areas for development and improvement.

The CPIA intends to launch the findings of its inaugural research on the current state, and future, of PIE audit later this year. CPIA's mission aligns with the UK government's aim to strengthen regulatory powers and improve PIE audit quality via its upcoming Audit Reform and Corporate Governance Bill and it will look to be a supportive and constructive partner to the FRC as their remit transitions.

HAT RESPONSE
Once detailed information regarding audit reform is published, this will be reviewed by HAT and the implications analysed and communicated.

ACCOUNTING STANDARDS:

UK ENDORSEMENT OF AMENDMENT TO IAS 21:

Lack of Exchangeability: Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates were approved for adoption by all members of the UK Endorsement Board as advised in their Press Release. These are not being likely to lead to a significant change in accounting practice.

AMENDMENT TO FRS 101:

The FRC has issued minor Amendments to FRS 101 Reduced Disclosure Framework following the 2023/24 annual review cycle.

Changes include a disclosure exemption from presenting certain comparative information, and a conditional exemption for qualifying entities in respect of certain disclosures about supplier finance arrangements required by IAS 7 Statement of Cash Flows, with amendments also being made to Appendix II Note on Legal Requirements for consistency with IAS 1 Presentation of Financial Statements.

HAT RESPONSE
Where necessary, amendments will be made to documentation in the HAT Corporate Audit Methodology and included in the next release.

FRC CONSULTATION ON GOING CONCERN:

The FRC has issued a consultation on revisions to its Guidance on the Going Concern Basis of Accounting and Related Reporting, including Solvency and Liquidity Risks. Once finalised, it will replace the FRC's existing guidance, issued in 2016 and the Press Release accompanying the consultation indicates that it will be non-mandatory and will serve as a proportionate and practical guide to all UK companies other than small companies and micro-entities. This includes a revised range of factors and techniques directors could consider when performing going concern assessments.

The draft guidance brings together requirements or provisions of company law, accounting standards, auditing standards, listing rules, the UK Corporate Governance Code and other relevant regulation and is expected to be finalised in early 2025.

ICAEW / ACCA / REGULATORY:

COMMON FINDINGS FROM ICAEW PRACTICE ASSURANCE VISITS:

ICAEW have issued their annual report on recurring findings arising on Practice Assurance visits which they undertake. Two of the key findings arising relate to client money (which arose at one in six of the firms visited) and communication of the basis of fees and complaints (which arose at one in eight firms visited).

Non-compliance identified with the ICAEW Clients' Money Regulations included: firms not having a bank trust letter to acknowledge the status of clients' money bank accounts; not carrying out and documenting an annual clients' money compliance review; not using designated clients' money accounts when holding £10,000+ for more than 30 days; not obtaining their clients' consent (or waiting for at least 30 days after issuing an invoice) before taking their fee from a client money balance; and not reconciling their clients' money accounts at least once every five weeks.

Although these findings arise from ICAEW regulatory visits, ACCA's Code of Ethics and Conduct is virtually identical and as such, it is likely that similar issues would be identified at firms of Chartered Certified Accountants that hold client money.

A number of ICAEW firms had not informed their clients of the basis on which fees are charged or the firm's complaints procedure, including the client's right to complain to ICAEW. It was also found that engagement letters were not always up to date, did not cover specialist services and / or were incorrectly informing clients that they could carry out work requiring a DPB licence when this was not the case.

The issues which have been identified on client money and communicating the basis of fees and complaints are routine issues which are easily identified and rectified. Accountancy firms can use HAT Group as their compliance partner to perform an annual client money and / or Practice Assurance compliance review to reduce the likelihood of these issues being unidentified until a regulatory visit.

ACTION FOR FIRMS
Ensure that professional scepticism is applied when performing internal annual reviews or request an external review by HAT Group.

ENHANCEMENT TO ICAEW CODE OF ETHICS REGARDING "PROFESSIONAL BEHAVIOUR":

ICAEW has confirmed the final wording for the fundamental principle of professional behaviour which applies from 1 January 2025. The change being as follows:

Current wording: 115.1 A2 The concept of professional behaviour implies that it is appropriate for professional accountants to conduct themselves with courtesy and consideration towards all with whom they come into contact when performing their work.

Approved new wording: 115.1 A2 A reasonable and informed third party would expect that a professional accountant, in their professional life, treats others fairly, with respect and dignity and, for example, does not bully, harass, victimise, or unfairly discriminate against others.

ACTION FOR FIRMS
All ICAEW members (whether or not they practice through an ICAEW member firm) should be aware of this change.

CHARITIES:

CHARITY COMMISSION GUIDANCE ON VIRTUAL MEETINGS:

The Charity Commission has refreshed its guidance on meetings for the Zoom era. Its Press Release highlights that they have redesigned their guidance on charities and meetings (known as CC48), which emphasises the importance of complying with a charity's governing document when holding meetings.

The guidance stresses that trustees should make sure any rules around holding meetings are up to date which may include amending a charity's governing document to set out details such as how votes will be held at virtual meetings. It also recommends that charities that wish to hold virtual meetings have a policy that says how people can ask questions, join in the debate, and what would happen to the meeting if there were technical problems.

CHARITY COMMISSION GUIDANCE ON CERTAIN DISPOSALS OF LAND:

The Charity Commission's Chief Executive has written an open letter to local authority Chief Executive Officers. It highlights that they are seeing a significant number of cases where local authorities have failed to comply with their legal duties as charity trustees and they have had to take action following receipt of complaints.

Common problems include local authorities changing the use or status of charitable land, or disposing of it, in a way that is not compatible with its charitable purpose, sometimes without even realising it is charity property.

The Charity Commission advises that local authorities should understand which of the assets they manage or own are charitable (for example: recreation grounds and public gardens; concert halls and buildings of historic interest; swimming pools and war memorials). It is recommended that local authorities review their asset register and clearly identify on it those assets held which are charitable. This will ensure that it is clear at all times which assets are subject to charity law.

The Charity Commission has also updated their guidance for local authorities and recreation ground charity guidance.

ACTION FOR FIRMS
When firms act for charities which may be affected by the above, they should be advised to review the latest Charity Commission guidance.

ACADEMY TRUST HANDBOOK:

The Education and Skills Funding Agency have published the academy trust handbook for 2024, which applies from 1 September 2024.

The main changes for financial requirements are: confirming that trusts no longer need to provide an explanation in their governance statement where the board has not met at least 6 times in the year; providing trusts with an additional month to submit their Budget Forecast Return; simplifying the position on the preparation and circulation of management accounts, including more discretion for trusts; and explaining the permissive position on Electric Vehicle (EV) salary sacrifice schemes.

HAT RESPONSE
Where necessary, amendments will be made to HAT's Academies methodology when this is next updated.

CLIENT MONEY:

SRA WARNING NOTICE ON CLIENT ACCOUNT SHORTFALLS:

The Solicitors' Regulation Authority has issued a warning notice regarding shortfalls in a firm's client account and their Press Release accompanies a new warning notice in which law firms have been reminded of their duty to replace any shortages on client accounts immediately upon discovery. This latest warning notice makes clear that whatever the underlying reason, firms have an obligation to replace immediately any money missing from the account.

The warning notice also says that firms should have clear processes in place for regularly checking that their client account balances are correct, and be aware of other obligations, such as informing their insurers, if they ever find this is not the case.

ACTION FOR FIRMS
When completing an SRA Accountant's Report, it should be ensured that if issues are identified on reconciliations and with debit balances, that it is considered whether a whistleblowing report is also required.

FCA SANCTIONS AGAINST AUDIT FIRMS:

The Financial Conduct Authority ("FCA") has issued sanctions against two audit firms and their Press Releases include the following:

SANCTION 1 advises that a firm failed to notify the FCA of rule breaches by firms it had audited, which could have put customers' money at risk. The FCA's investigation found that between 2015 and 2019, the firm failed to prepare 4 client assets reports (relating to 2 entities) to the required standard. It failed to report 25 breaches of the rules by entities it had audited, ranging from failings in documentation, to entity's assets being held alongside client assets. The firm was publicly censured by the FCA.

SANCTION 2 advises that PwC encountered significant issues throughout their 2016 audit of LCF. A senior individual at LCF acted aggressively towards auditors, and the firm provided PwC with inaccurate and misleading information. PwC found the audit very complex, and it took considerably longer to complete than anticipated. LCF's actions, and PwC's own work on the audit, led PwC to suspect that LCF might be involved in fraudulent activity. PwC was duty bound to report those suspicions to the FCA as soon as possible, but they failed to do so.

LCF went into administration in January 2019 after the FCA ordered the firm to withdraw misleading promotional material. Thousands of investors were misled because they were not given the full picture about the risks of the product. The Serious Fraud Office has an open criminal investigation into the failure of LCF.

PwC incurred a financial penalty of £15,000,000.

ACTION FOR FIRMS
These are the first sanctions against auditors directly by the FCA. When acting for a regulated client, all members of the engagement team should be competent and have received appropriate training.

DISCLAIMER NOTICE:

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