



## MEMORANDUM

**To: Technical Representatives**  
**From: Simon Kettlewell**  
**Date: 31 October 2016**  
**Ref: TM 18/16**

### **HAT AUDIT MANUAL ~ JANUARY 2016**

The HAT Audit Manual has been updated to fully reflect the updated version of FRS 102 (September 2015), which includes Section 1A as applicable to smaller entities, as well as reflecting the amendments of the EU Accounting Directive and consequent changes to Company Law, the updated International Standards on Auditing (UK) ('ISAs') and the new FRC Ethical Standard. The updated manual is dated "January 2016", to reflect the commencement date for accounting periods to which this Manual relates.

The amendments to the ISAs and the FRC Ethical Standard mandatorily come into effect for accounting periods commencing on or after 17 June 2016, however the changes are available for early adoption and have therefore been reflected in this update.

For any accounting period commencing on or before 31 December 2015, the HAT Audit Manual (January 2015 or September 2013 version, as appropriate) should be used.

#### **Content of the HAT Audit Manual - January 2016:**

This Manual reflects the following amendments and enhancements, in addition to fully reflecting the amended requirements of FRS 102, including Section 1A:

- Update to the materiality assessment form, to ensure better alignment with the requirements of ISA (UK) 320 and the expectations of the ICAEW;
- Updated audit report template wording to reflect the change in the auditor's responsibilities in respect to reporting on the Directors' Report and Strategic Report and the new FRC Compendium of Illustrative Auditor's Reports;

12 COCK LANE, LONDON EC1A 9BU  
TEL: 020 7213 9911 FAX: 020 7213 9922  
EMAIL: [hat@hatgroup.co.uk](mailto:hat@hatgroup.co.uk)  
[www.hatgroup.co.uk](http://www.hatgroup.co.uk)

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- Amending pro-forma letter of engagement and assignment terms letter wording to reflect the changes to those responsibilities (see Note 1 below);
- Updated Terms of Business, including suggested wording for when the audit practice uses Cloud services;
- Updates to work programmes and text to reflect the updates to the ISAs and Ethical Standard;
- Updates to certain work programmes to include additional considerations in respect of the audit of financial instruments;
- Enhancing the layout of the consideration of those charged with governance and informed management at the planning stage;
- Updating of the Going Concern form to better assess the appropriateness of disclosures given;
- Re-scoping of the AIM Chapter to those entities defined as Small and Medium Listed Entities (as defined in the FRC Ethical Standard), as well as reflecting changes to the rules around the provision of non-audit services to SME Listed Entities;
- Inclusion of a Critical Review checklist covering the “filleting” of small company financial statements in accordance with section 444 of Companies Act 2006;
- Updated small company disclosure checklist dealing with the requirements of FRS 102 Section 1A as well as the option to abridge the profit and loss account and/or balance sheet.

NB1: This manual includes wording for letters of engagement and assignment terms letters to be issued for periods commencing between 1 January 2016 and 17 June 2016. The wording dealing with the enhanced auditor’s responsibilities in respect of reporting on the Strategic and Directors’ Reports does not fully reflect the format of the FRC’s updated audit report format but is nevertheless technically correct. Placeholders have been included for the letter of engagement and assignment terms letter for periods commencing on or after 17 June 2016, awaiting updated engagement terms from the ICAEW which mirror the new audit report requirements.

NB2: Note that work is ongoing regarding the preparation of an FRS 101 Disclosure Checklist, and to avoid delaying the release of this Manual, a “placeholder” has been inserted, and this will be issued as soon as it has been finalised.

We are always pleased to receive feedback on our manuals. If you have any comments on this Manual then please email [simon@hatgroup.co.uk](mailto:simon@hatgroup.co.uk)