



CHARTERED CERTIFIED ACCOUNTANTS

Article topic: Financial Reporting

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Accounting and Audit Round Up

Auditing

The International Auditing and Assurance Standards Board (IAASB) completed their 'Clarity Project' on 27 February 2009 which was undertaken to improve the understandability of the International Standards on Auditing (ISAs).

The final set of Clarified standards comprise 35 ISAs and one International Standard on Quality Control (ISQC 1) all of which will take effect for audits of financial statements for periods ending on or after 15 December 2010 (essentially December 2011 years ends), but earlier adoption of the Clarified ISAs is permitted.

In terms of additional work, there are lots of press reports that audit work will increase 'significantly'. I do not believe this will be the case. There will, of course, be additional time to be devoted in respect of the rewritten standards but these will only affect certain types of entity or on complex audits.

As part of their Clarity Project, the IAASB have introduced 2 additional standards; ISA 265 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management' and ISA 450 'Evaluation of Misstatements Identified During the Audit'.

ISA 265 is basically an extension to ISA 260 and acknowledges that those charged with governance and management may consist of two separate groups of individual(s) – for example where there are different hierarchies of management. ISA 265 requires the auditor to consider the possibility that weaknesses identified during the course of an audit may be brought to the attention of management OR those charged with governance, depending on the nature of the weakness or non-existence of an internal control. Therefore there could well be more than one letter of comment required.

ISA 450 requires the auditor to consider the effect of uncorrected misstatements within the financial statements and also requires the auditor to reassess materiality to determine whether the materiality level remains appropriate. ISA 450 requires the auditor to consider:

- The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
- The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Audit firms should now be planning their strategy to deal with the Clarified ISAs, in particular ensuring clients are notified of the new ISAs and the impact the Clarified ISAs will have on the audit strategy.

Accounting Update

Things have been relatively quiet down at the Accounting Standards Board (ASB) and this is almost certainly 'the calm before the storm'. A new accounting standard was issued in June 2009 – FRS 30 'Heritage Assets'.

FRS 30 defines a heritage asset as:

'A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture'.

FRS 30 deals with all heritage assets regardless of whether or not they are reported in the entity's balance sheet and it requires an entity to disclose its policy for acquiring, preserving and managing heritage assets. Where heritage assets are not reported in an entity's balance sheet, then FRS 30 requires disclosure of the reasons why they are not reported in the balance sheet together with the significance and nature of those assets which are not reported in the balance sheet.

Heritage assets which are reported in an entity's balance sheet should disclose:

- The carrying amount of the heritage assets at the start and end of the reporting period which should also show an analysis of those classes or groups of heritage assets which are reported using the historical cost method and those heritage assets which are stated at valuation.
- Where assets are stated at valuation (fair value), then disclosure should be made of:
 - The date of valuation.
 - The methods used in calculating fair value.
 - Who carried out the valuation. If external valuations are used, the name of the person carrying out the valuation and their professional qualifications should be disclosed.
 - Any significant limitations on the valuation.

The financial statements should also disclose for the current reporting period and the previous four reporting periods:

- The cost of acquisitions of heritage assets.
- The value of heritage assets acquired by way of donation.
- The carrying amount of heritage assets that have been disposed of and the proceeds which have been received.
- Any amounts recognised in respect of impairment.

IFRS for SMEs

In July 2009, the International Accounting Standards Board (IASB) issued their 'IFRS for SMEs' (often referred to as IFRSSME). Following the issuance of this standard by the IASB, the UK's ASB issued their proposals for the future of UK GAAP. The proposals were split into three 'tiers':

- Tier 1 entities are publicly accountable entities who would apply EU-adopted IFRS.
- Tier 2 entities are non-publicly accountable entities who currently can apply FRSSE would apply the IFRS for SMEs.
- Tier 3 entities would continue to use FRSSE.

The consultation process closed on 1 February 2010 and the ASB have received more than 150 responses, all of which demonstrated a mixed response to the proposal.

I suspect FRSSE will be dispensed with in its entirety as most of the professional bodies do not like the idea of a 3 tier financial reporting structure. Moreover, FRSSE is currently a condensed version of current GAAP and the proposal is to consign current GAAP to the history books and therefore FRSSE will then be based on a reporting framework which no longer exists. If the ASB do retain FRSSE then it should be aligned to IFRS for SMEs.

One notable feature of IFRS for SMEs is the fact that the standard itself is a 'stand-alone' standard and FRSSE is not a stand-alone standard. If a transaction or event is not covered in FRSSE, then users are expected to fall back to the full, mainstream standards to decipher the correct treatment. If such a transaction or event is not covered in the full standards, the users are expected to refer to IFRS or another GAAP (for example, US GAAP) to determine best practice.

Where a transaction or event is not covered in IFRS for SMEs, then users are expected to develop an accounting policy to deal with such. However, this is not a 'free for all' and management are expected to arrive at a suitable accounting policy having regard to the provisions in the IASB 'Framework Document' which defines assets, liabilities, income, expenses and equity.

Companies Act 2006

Companies Act 2006 was fully implemented in October 2009 after being introduced in 'tranches'. All section numbers have changed from the old 1985 Act and practitioners must be up to date with the provisions. The 2006 Act is the longest piece of legislation the UK has ever had and October 2009 saw the following provisions coming in:

- Informal correction.
- Registrars Powers.
- Revised forms.
- Incorporation.
- Change of constitution.
- Change of company name.
- Treatment of company name.
- Directors' service addresses.
- Administrative restoration.
- Single Alternative Inspection Location (SAIL).
- Voluntary dissolution.
- Statement of Capital.
- Slavenburg Charges.

This article has highlighted some 'major' changes that are forecast for the auditing and accounting profession and practitioners are urged to ensure that they are ready for the changes which are going to be brought in. The planned introduction of IFRS for SMEs has been suggested for accounting periods commencing on or after 1 January 2012 though I suspect this is more than likely going to change to accounting periods ending on or after 31 December 2012 given that it will not leave sufficient time for accountants to deal with the significant change.

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