



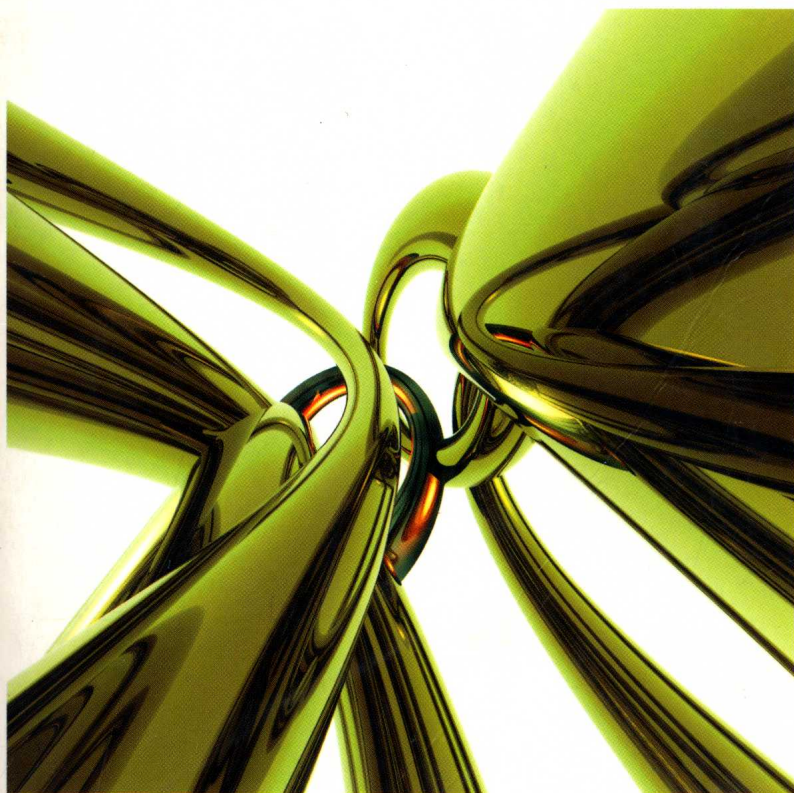
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Auditing and Reporting 2009–10

John Selwood

The full text of all UK Auditing Standards and
Exposure Drafts extant at 30 April 2009



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**THE INSTITUTE
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IN ENGLAND AND WALES



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2009-10

Extant at 30 April 2009

General Editor

John Selwood



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ISBN 978-1-84798-147-9

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British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library.

Typeset by YHT Ltd, London
Printed and bound in Italy by Legoprint-Lavis (TN)

Preface

Auditing and Reporting presents the current framework of standards and other pronouncements relevant to the conduct of audit practice in the United Kingdom and the Republic of Ireland. The majority of the pronouncements are issued by the Auditing Practices Board (APB) of the Financial Reporting Council (FRC). In addition, the technical releases issued by the Audit & Assurance Faculty of the Institute of Chartered Accountants in England & Wales (ICAEW) are given.

The APB's framework of standards comprises the:

- APB's Ethical Standards;
- International Standard on Quality Control (UK & Ireland); and
- International Standards on Auditing (UK & Ireland).

The framework of standards applies in the UK and Ireland to audits of accounting periods that commenced on or after 15 December 2004. The framework is largely based upon standards issued by the International Audit and Assurance Standards Board (IAASB). Relatively few revisions have been made to these standards since the majority of the framework was issued in 2004. A full explanation on the form of pronouncements issued by the APB is given below.

The IAASB's 'clarity project' is now complete and the APB have announced that the ISAs (UK and Ireland) will be changed for periods commencing 15 December 2009 onwards, although they will not be applicable to short accounting periods. This volume includes the existing ISAs (UK & Ireland) and a separate volume has been produced that contains the new Exposure Drafts. There are 13 revised Standards, 20 redrafted Standards and one new Standard, giving rise to significant change in the requirements.

As in past years the contents listed are comprehensive but to limit the size of the volume, the text has been restricted to documents deemed to be relevant to generalists and students. Accordingly, texts of statements relating to certain specialised audits have been omitted.

Where practicable, attention is drawn by way of editorial note to amendments to existing statements, arising from legislation, regulation and subsequent pronouncements. However, a number of statements which have not been superseded may no longer reflect current legislation, presentation and practice. Readers are therefore, cautioned to have regard to changes since publication and the need to ensure that all relevant sources of guidance are consulted.

APB Pronouncements

The APB issues pronouncements in the form of

- *Quality control standards* for firms that perform audits of financial statements, reports in connection with investment circulars and other assurance engagements;
- A framework of fundamental principles which the APB expects to guide the conduct of auditors;
- *Engagement standards* for audits of financial statements, reports in connection with investment circulars and other assurance engagements; and

- Guidance for auditors of financial statements, reporting accountants acting in connection with an investment circular and auditors involved in other assurance engagements.

The Engagement Statements include:

- *APB Ethical Standards*: These standards are concerned with the integrity, objectivity and independence of auditors.
- *International Standards on Auditing (UK and Ireland)*: These standards apply to all audits of financial statements and contain 'bold letter' paragraphs that set out the basic principles and essential procedures with which auditors must comply. The remainder of the text is termed 'grey letter' guidance and the APB have stated that auditors must consider this guidance in their application of the basic principles and essential procedures.

The guidance for auditors includes:

- *Practice Notes*: these contain guidance intended to assist auditors in applying Auditing Standards in particular circumstances or industries
- *Bulletins*: are intended to provide auditors with up-to-date guidance on new or emerging issues

The Companies Act 2006 first applies to company accounts for periods commencing 6 April 2008 onwards and the APB have issued further Bulletins that include relevant guidance.

ICAEW guidance on auditing and reporting

The ICAEW now primarily constitutes technical releases issued by the Audit and Assurance Faculty of the Institute.

John Selwood
May 2009

Where practicable, attention is drawn by way of editorial note to amendments to existing statements arising from legislation, regulation and subsequent pronouncements. However, a number of statements which have not been superseded may no longer reflect current legislation, presentation and practice. Readers are therefore cautioned to have regard to changes since publication and the need to ensure that all relevant sources of guidance are consulted.

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- Engagement standards for audits of financial statements, reports in connection with investment circulars and other assurance engagements; and

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** These documents are not reproduced in this book, but copies may be obtained from the Auditing Practices Board*

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- *Engagement standards* for audits of financial statements, reports in connection with investment circulars and other assurance engagements; and

The Auditing Practices Board – scope and authority of pronouncements (revised)

The Auditing Practices Board

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This statement, which describes the scope and authority of the Auditing Practices Board's (APB's) pronouncements, replaces a previous document of the same title which was issued in April 2003. The revised statement reflects the position of the APB (and of the Auditing Practices Board Limited) at the date of issue.

The Auditing Practices Board – scope and authority of pronouncements (revised)

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The Auditors' Code, which is set out in Appendix 2, provides a framework of fundamental principles which encapsulate the concept of public interest and underlie the APB's ethical and auditing standards.

- Quality control standards for firms that perform audits of financial statements, in connection with investment circulars and other assurance engagements with UK and Ireland and the UK and Ireland Standardisation Board.
- A framework of fundamental principles which the APB expects to guide the conduct of auditors (see Appendix 2).
- Engagement standards for audits of financial statements, in connection with investment circulars and other assurance engagements, and guidance for auditors of financial statements, reporting accountants acting in connection with an investment circular and auditors involved in other assurance engagements.

The structure of APB pronouncements is shown in Appendix 1. The IFAC Code is included in the IFAC Handbook of International Auditing, Assurance, and Ethics Pronouncements, and can be downloaded free of charge from the publications section of the IASB website. Auditors and reporting accountants should not claim compliance with APB standards unless they have complied fully with all of those standards relevant to an engagement. The Ethical Standards have also been drawn to conform with the requirements of the EC Professional Accountants' Statutory Auditors' independence in the UK and Ireland.

Information about the Financial Reporting Council (FRC) and its structure, including its auditing bodies, can be found on the FRC's website (www.frc.org.uk). The FRC is a body that they will need to consult.

Introduction

- 1 The objectives of the Auditing Practices Board Limited, which is a constituent body of the Financial Reporting Council¹, are to:
 - Establish Auditing Standards which set out the basic principles and essential procedures with which external auditors in the United Kingdom and the Republic of Ireland are required to comply;
 - Issue guidance on the application of Auditing Standards in particular circumstances and industries and timely guidance on new and emerging issues;
 - Establish Standards and related guidance for accountants providing assurance services where they relate to activities that are reported in the public domain, and are therefore within the “public interest”;
 - Establish Ethical Standards in relation to the independence, objectivity and integrity of external auditors and those providing assurance services;
 - Participate in the development of statutes, regulations and standards which affect the conduct of auditing and assurance services, both domestically and internationally; and
 - Contribute to efforts to advance public understanding of the roles and responsibilities of external auditors and the providers of assurance services including the sponsorship of research.
- 2 The Auditing Practices Board Limited discharges its responsibilities through a Board (‘the APB’), comprising individuals who are eligible for appointment as company auditors and those who are not so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.
- 3 The Nomination Committee of the Financial Reporting Council appoints members of the Board.

Nature and Scope of APB Pronouncements

- 4 APB pronouncements include:
 - ‘Quality control standards’ for firms that perform audits of financial statements, reports in connection with investment circulars and other assurance engagements;
 - A framework of fundamental principles which the APB expects to guide the conduct of auditors (see Appendix 2);
 - ‘Engagement standards’ for audits of financial statements, reports in connection with investment circulars and other assurance engagements; and
 - Guidance for auditors of financial statements, reporting accountants acting in connection with an investment circular and auditors involved in other assurance engagements.

The structure of APB pronouncements is shown in Appendix 1.

- 5 Auditors and reporting accountants should not claim compliance with APB standards unless they have complied fully with all of those standards relevant to an engagement.

¹ Information about the Financial Reporting Council (FRC) and its structure, including its subsidiary bodies, can be found on the FRC’s website (www.frc.org.uk/about).

APB quality control and engagement standards contain basic principles and essential procedures (identified in bold type lettering²) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.

In order to support the international harmonisation of auditing standards APB has decided to adopt the International Standard on Quality Control 1 (ISQC 1) and International Standards on Auditing (ISAs) issued by the International Audit and Assurance Standards Board³ (IAASB). Where necessary APB has augmented such international standards by additional standards and guidance to maintain the requirements and clarity of previous UK and Irish auditing standards. This additional material is clearly differentiated from the original text of the international standards by the use of grey shading.

The ISAs (UK and Ireland) and ISQC 1 (UK and Ireland) require compliance with the APB's Ethical Standards and relevant ethical pronouncements relating to the work of auditors issued by the auditor's relevant professional body. This contrasts with the ISAs and ISQC 1 as issued by the IAASB, which require compliance ordinarily with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code⁴) together with national requirements that are more restrictive.

When preparing them, the APB sought to ensure that the Ethical Standards adhered to the principles of the IFAC Code⁵. The APB is not aware of any significant instances where the relevant parts of the IFAC Code are more restrictive than the Ethical Standards⁶.

Standards and Guidance for Audits of Financial Statements

The Auditors' Code, which is set out as Appendix 2, provides a framework of fundamental principles which encapsulate the concepts that govern the conduct of audits and underlie the APB's ethical and auditing standards.

APB engagement standards, which comprise APB Ethical Standards and International Standards on Auditing (UK and Ireland), apply to auditors carrying out:

² In addition to the use of bold type lettering, the level of authority of the text in these paragraphs is identified by use of the expression "the auditor should ...". In some of the explanatory and other material the expression "the auditor would ..." is used; the use of the word "would" in these paragraphs does not give them the same level of authority as the use of the word "should", in bold text.

³ IAASB is a committee of the International Federation of Accountants (IFAC). The IAASB's constitution and due process is described in its 'Preface to the international standards on Quality Control, Auditing, Assurance and Related Services'.

⁴ The Institute of Chartered Accountants in Ireland, the Institute of Certified Public Accountants in Ireland, the

⁵ The IFAC Code is included in the IFAC 'Handbook of International Auditing, Assurance, and Ethics Pronouncements' and can be downloaded free of charge from the publications section of the IAASB website (www.ifac.org/IAASB).

⁶ The Ethical Standards have also been designed to implement the requirements of the EC Recommendation on 'Statutory auditors' independence in the EU: a set of fundamental principles' in the UK and Ireland.

⁷ Should auditors wish to state that an audit has been conducted in compliance with ISAs as issued by IAASB they will need to ensure that they have complied with the relevant parts of the IFAC Code.