

# Specialist Assignment Manual News



Welcome to the July 2011 edition of our Specialist Assignment Manual (SAM) newsletter. Inside you will find a review of the updates that have been issued to your manuals over the past 12 months, as well as news about the changes you can expect to see in the year to come.

Please forward this newsletter on to any colleagues at your firm who might also find it useful.

## What a year!

As we looked ahead to the year to come at this time last year, we knew that 'clarified' ISAs would dominate the updates to your manuals. However, in all honesty, we did not expect to have to issue as many updates as we eventually did! Thank you for bearing with us while we issued numerous versions to take account of the changing audit reports that followed.

In rewriting the manuals to take account of clarified ISAs we also took the opportunity to begin a programme of improving the access and design of the manuals. We hope that you like the results. All of the 'true and fair' manuals have benefited from a makeover, as have the FSA SAMs. The remaining manuals will follow later this year.

Finally, thanks to our I.T team, we also managed to squeeze the development of a new online service website into this period. There is more on this, plus the usual review of this year's updates and what we can look forward to next, below.

## Clarified ISAs and Audit Reports

As expected, clarified ISAs dominated the updates to our 'true and fair' manuals this year. A major update to our corporate audit manual was followed by corresponding updates to the Charities, Pension Schemes, Limited Liability Partnerships, Clubs and Registered Social Housing Providers SAMs. Several new forms were introduced in response to the standards and revisions were most notably made to the planning, completion and permanent file forms.

The supporting documentation in the manuals was also updated, although it is 'audit reports' that deserve a special mention! APB Bulletin 2010/2 was published on 22 December 2010 and contained the example audit reports needed for specialist assignments for accounting periods ending on or after 15 December 2010.

Updates to include these reports in the clarified ISA versions of our manuals were issued in January 2011.

In February, the audit reports in APB Bulletin 2010/2 changed again, as ISA+700 was revised for accounting periods ending on or after 23 March 2011. An amendment was made to the short form description of the scope of an audit to refer to the auditor's responsibility to read all the financial and non-financial information in the annual report to

identify material inconsistencies with the financial statements.

We issued the necessary updates to include the revised reports in the clarified ISA versions of our manuals in March.

### How are you getting on?

Most of you by now are likely to have completed audits under the clarified ISAs, using your updated manuals. We are always pleased to receive feedback on our manuals, therefore if you have any comments to make on using the documentation in practice we would be pleased to hear from you.

Our audit manual committee will be considering if we can improve the documentation one year on, later this year.

### Audit quality reviews

If you would like some feedback on how you are getting on with clarified ISAs you may be interested in our file review service.

Reviews can be tailored to your specific circumstances and clarified ISA training is also available in response to the findings.

Click [here](#) if you would like to find out more about our file review services, including clarified ISA coaching.

## Academies

Academy status within the education sector has certainly become more prominent following the introduction of the Academies Act 2010.

This leads to new opportunities for accountants and auditors to provide advice and other services to the growing number of schools that are converting to academy status.

If you are interested in providing your services to this sector there are a number of issues to get to grips with. We first included an introduction to these and the academies sector in general in our May 2011 newswire, which you can access [here](#) with our compliments.

### New SAM

We are currently in the process of finalising a new addition to the SAM range that covers Academies. The manual will provide you with all of the usual documentation needed to undertake an academy audit - guidance notes, an example engagement letter and audit report, proforma accounts, a disclosure checklist and current and permanent file documentation, including tailored audit programmes. Click [here](#) to find out more.

Our next specialist **Academies Conference** is being held in London on 29 September and we will be including Academies CPD courses in our autumn specialist CPD programme.



## Keeping up to date

Remember that you can check that you are using the latest versions of our manuals on our website at [www.mercia-group.co.uk/technical\\_manuals/updates.htm](http://www.mercia-group.co.uk/technical_manuals/updates.htm)



## Limited Liability Partnerships (LLP)

An October 2010 update to your LLP SAM (version 6) dealt with clarified ISAs and the revised LLP SORP, which you may recall, had been revised in order to take account of an amendment to FRS 25, Financial Instruments: Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation.

This update was followed in 2011 by the two 'mini' updates that amended the audit report in the manual, as well as corresponding documents, for APB Bulletin 2010/2.

## Registered Social Housing Providers (RSHP)

This Specialist Assignment Manual has certainly seen its fair share of changes over the last 12 months! Not only have changes been made for clarified ISAs, (version 4) new audit reports and the bringing into force of the accounts and audit related sections of the Housing and Regeneration Act, the manual has also been given a new name. 'RSHP' is in line with the title of the latest SORP, an update in respect of which you can expect later this year.

The social housing sector is certainly going through a period of change. You will recall that this year's major update referred to the Tenants Services Authority (TSA) document 'The Regulatory Framework for Social Housing in England' which applies to all RSHPs from 1 April 2010. From that date the majority of the previous guidance in Housing Corporation Circulars and Good Practice Notes was withdrawn and a principles-based approach to regulation adopted.

The coalition government subsequently announced the disbandment of the TSA, stating its intention to replace it with a reformed Homes and Communities Agency with effect from April 2012. The full impact of this on the sector remains to be seen. More recently, the Housing Minister announced plans to consult on a new way for tenants and members of the public to scrutinise how housing associations are run, with a view to extending the scope of the Freedom of Information Act to include housing associations, as many receive substantial public investment.

### What's next?

The next update to your manual will deal with the new RSHP SORP and its attached technical notes. The SORP reflects changes in accounting issues since its previous edition and has special reference to the treatment of negative goodwill and the capitalisation of works to existing properties. The new technical notes give guidance on the areas of component accounting, impairment and business combinations.

The new SORP is effective for accounting periods commencing on or after 1 April 2011.



## Charities

The clarified ISA version (7) of the Charities SAM was released in November 2010 and there have, of course, been two small updates to this in January and March 2011, following APB Bulletin 2010/2. Version 7 also reflects the changes in Scotland to the 2006 accounting regulations (for example, increasing the thresholds for receipts and payments accounts), which take effect for accounting periods starting on or after 1 April 2011.

### Another update coming soon

There is another update on the way, scheduled for release in August 2011. The update takes account of the 2011 revision to Practice Note (PN) 11, which has been updated for clarified ISAs. While your charities manual already covers these, we are making some small improvements as a result of the revised PN. We are also taking the opportunity to introduce forms for the scenario where you are auditing the whole of a charity group; together with an example group engagement letter and example group audit reports.

### And after that?

In England & Wales, the secondary legislation on Charitable Incorporated Organisations is expected soon. In Scotland, charities are now beginning to register as Scottish Charitable Incorporated Organisations (SCIOs) following legislation earlier this year. In Northern Ireland, following the Charities Act (NI) 2008, progress has been slow but the Charity Commission for Northern Ireland (CCNI) is currently finalising plans for a register of charities for Northern Ireland and developing an accounting / reporting regime.

Once the FRSME and FRSPBE have been firmed up, the Charities SORP Committee will set about in earnest developing a new SORP for the charities sector. However, we do not expect there to be a new draft SORP before we send you another newsletter in the summer of 2012!

## FSA SAMs - Mortgage and General Insurance Intermediaries (MGI) and Designated Investment Firms (DIF)

June 2011 updates to both of your FSA (MGI) and (DIF) SAMs (versions 7 and 3 respectively) dealt with changes arising from FSA Policy Statement (PS) 11/5, which enhanced the auditor's report on client assets.

You will recall that as a result of this, the FSA Handbook now contains a template for the audit report, which includes a 'Breaches Schedule' that should list all CASS rule breaches discovered in the audit or notified to the auditor. This Schedule must be annotated with the client's explanations and remedial actions to correct such breaches, before it is finalised. The final report must also be seen by 'those charged with governance' of the client.

The new rules were effective from 1 June 2011, however, under transitional provisions, auditors and firms have the option not to

apply these new requirements to an auditor's client assets report with a reporting period that ends on or before 29 September 2011.

### Looking ahead ...

Next year, the FSA will be replaced, as far as the retail markets are concerned with a new regulator: the Financial Conduct Authority (FCA). The FCA is widely expected to prove more rigorous in enforcing market conduct rules on its members than its predecessor, which may mean that auditors will be required to take a more active role in providing assurance on areas such as capital adequacy.

As soon as the regulatory environment for the FCA becomes clearer, we will revise your manuals accordingly and will keep you informed as to the timetable for these changes.

## Estate Agents

An update to your manual is currently being prepared to take account of a number of developments in the supervision of Estate Agents. Since the formation of the National Federation of Property Professionals (NFoPP), following the merger of NAEA and ARLA, we have been expecting the regulatory regimes of the two associations to align themselves more closely.

In March 2011 the NFoPP published the Client Account Rule Guidelines (The Federation's Accounting Rule) which applies to all divisions of the NFoPP (NAEA, ARLA, ICBA and NAVA) for accounting periods beginning on or after 1 June 2011.

The 'Accounting Rule' is modelled on ARLA's previous Byelaw 3, and will require the production of the Accountant's Checklist and Report, familiar to accountants dealing with ARLA members, for all divisions from accounting periods beginning after that date. The Rule contains some changes for all divisions, but impacts most strongly on agents currently reporting to the NAEA. Your updated manual will reflect these changes.

There are also changes to the qualifications required for accountants signing these reports, who must now be members of ACCA, ICAEW, ICAS, CAI or AAPA but who no longer need to be Statutory Auditors unless the report covers statutory clients' money.

For those of you who act for RICS members, RICS has produced an updated version of its guidance 'Clients' Money: general advice for firms', taking into account feedback from the RICS Regulatory Roadshows and their regulatory visits. We will also include information from these in the forthcoming update.

RICS and the NFoPP have issued final guidance on Money Laundering, 'Money Laundering Guidance for Property Professionals' which should be key reading for agents dealing with the sale and purchase of property, especially since the OFT has recently fined an agent £2,000 for failing to register their business for supervision under the Regulations.

## Solicitors' Accounts Rules

### Forthcoming changes

Whilst there have been no changes to the Solicitors' Accounts Rules since 2009, as you are no doubt aware, the legal profession is currently going through a period of change as a result of the Legal Services Act 2007.

In April 2011, the Solicitors Regulation Authority (SRA) issued a new Handbook for solicitors, which introduces a new 'principles based' regulatory regime with effect from 6 October 2011. Within the Handbook there were new, draft, SRA Accounts Rules 2011. You may recall that we alerted you by email to these changes in April. The latest news is that the SRA approved the new Handbook in June.

Whilst the new rules are overwhelmingly the same as the current rules there are some changes which will impact on the work carried out by the Reporting Accountant.

### Rule changes

In summary, the key areas of change to the existing Rules are:

- **New Rule 6** - all firms of solicitors will be required to have a Compliance Officer for Finance and Administration (COFA) who will have the same responsibility for compliance with the Rules as principals in the firm. Additionally, they will have a responsibility to report breaches in the Rules to the SRA as soon as practicable.
- **Rule 21** - gone is the prescriptive list of who is eligible to authorise withdrawals on the client account. It is replaced with a Rule requiring 'an appropriate person in accordance with the firm's procedures for signing on the client account'. Electronic signatures are also permissible. (Replaces old Rule 23.)
- **Rule 22** - removes the distinction between the treatment of interest earned

on the general client account and separate designated accounts. Interest should be paid on all accounts when it is fair and reasonable to do so. The blanket de minimis £20 limit has also gone and is replaced with the requirement for the firm to have a written policy on the payment of interest to clients, which must be drawn to the attention of the client at the outset. (Replaces old Rule 24.)

- **Rule 29 (11)** - allows the use of the electronic version of the bank's online record to be used in the monthly reconciliation process. The current rules require a hard copy statement. (Amends old Rule 32(6A)).

### Effective date

The new Rules are effective from 6 October 2011 and we are now making the necessary changes to your manual, with a view to releasing this at the end of the summer.

In the meantime, if you would like more information on the new Handbook and / or the Solicitors Accounts Rules 2011 a copy can be downloaded from the **SRA's website**.



## Audit Exemption

The October 2010 update to your Audit Exemption SAM (version 9) covered the updated guidance available from the major accountancy bodies on accounts compilation for both incorporated and unincorporated entities. Engagement letters, example reports and certain work procedures were updated.

The next 12 months will again see the manual updated for routine matters and further ahead, we will see the manual updated as the future of UK GAAP is finally decided upon.

## Pension Schemes

This time last year there was little to report in terms of our Pension Schemes SAM but the last 12 months have seen three updates dealing with clarified ISAs, changing audit reports and Practice Note 15 (revised) to compensate for this!

### Practice Note 15

While we had already addressed the main changes arising from clarified ISAs in an earlier update, Practice Note (PN) 15 introduced other important changes, for example, to the wording of the engagement and representation letters, as well as to the guidance around going concern.

We also took the opportunity during the year to bring the Pensions SAM more in line with our other manuals, particularly in terms of the risk assessment sections, and to make a number of other improvements. The current version is 5.0.

## Clubs and Friendly and Industrial and Provident Societies (FIPS)

A December 2010 update to your Clubs SAM dealt with clarified ISAs (version 6), which was of course followed by an update to take account of the subsequent audit report changes.

Looking ahead, we are still waiting for the Co-operative and Community Benefit Societies and Credit Unions Act 2010 to become effective before making the corresponding changes to your manual.

Earlier in 2011 we undertook a review of the contents of the FIPS SAM and contacted subscribers by email to ask for feedback. Our preliminary thoughts were to introduce guidance on Community Interest Companies (CICs) to the manual and to discontinue the guidance on Credit Unions. The email also included a link to revised audit reports in advance of the next update. Thank you to those of you who responded.

We will be adding CICs to the manual and have undertaken to continue with Credit Unions for at least the next 12 months. You can expect an update, including the recent revision of PN 27, in the autumn.

## Technical Support and Contact Details

We offer a free support service on making the best use of our Specialist Assignment Manuals. Additionally, if you are registered for technical support with us we also offer subject-related technical support. You can find out more about our technical support services and how to register on our website at [www.mercia-group.co.uk/technical\\_support/options.htm](http://www.mercia-group.co.uk/technical_support/options.htm)

If you have any technical queries regarding your manuals please contact the relevant person by email or call us on 0116 258 1200.

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## Specialist Training

We hold certain courses over the year that provide specific training on the use of our Charities, Pension Schemes and FSA SAMs. These courses are particularly useful for those who do not subscribe to our corporate audit manual and have not therefore benefited from training on how to make the best use of the Mercia system.

Details of venues and prices can be found on our [website](#).

We also run a number of courses that cover specialist sectors through our specialist course programme as well as specific conferences. Details of the current programme can also be found on our [website](#).



## SAM pricing

You will notice some changes to SAM pricing this year, which became effective from 1 August 2010. The pricing structure has changed to become consistent with our corporate audit manual and is therefore based on the number of Responsible Individuals (RIs) at a firm. The new structure applies to both initial fees and to update fees, with the latter changes taking effect from 1 July 2011.

There are no price changes for non-audit and sole RI firms.

If your fees are changing this year, your 2011 update fee invoice will include full details of the changes made.

## Accessing your manuals

Updates to your technical manuals continue to be announced by email alert. The ongoing development of our website means that you have 24/7 access to the latest versions of your manuals and that there are no more CDs that are lost in the post!

This year we were delighted to launch a new online services website, which further improves access to our manuals.

Our IT team also helped us design new and improved access to the documentation within the manuals themselves, with the introduction of new, colourful signposting.

Email alerts announcing the release of an update will be sent to the email contact supplied to us either through your initial order or by subsequent instruction from you.

As always, it is essential that you keep us up to date with your contact details and should these change, please let Karina Mikolajczyk know, in writing, by email at [karina@mercia-group.co.uk](mailto:karina@mercia-group.co.uk) or by fax on 0116 258 1250.

