

Specialist Assignment Manual News

July 2009



Welcome to the July 2009 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!

You may recall that we referred in our July 2008 SAM newsletter to the key technical projects that we were working on, that would dominate the updates to your manuals in the forthcoming 12 months. At the time we referred to the Companies Act 2006 and a proposed overhaul of aspects of our standard audit documentation. If only this had been it!

Those of you with charity or registered social landlord clients will also know by now just how much of an impact a combination of the Companies Act 2006, Charities Act 2006 and the Housing and Regeneration Act 2008 and all of the associated secondary legislation (not to mention a new RSL SORP) has had in these specialist areas.

Add to this the frustratingly different legislative implementation dates that affected charities, guidance on audit reports that does apply to limited companies now but not to limited company charities or other types of organisation until 2010, amended Solicitors' Accounts Rules following the Legal Services Act 2007 and amended client money rules for FSA (DIF) clients and you can begin to see that some of us here at Mercia have been buried under a pile of legislation for most of the year!

In this newsletter you will find a summary of the changes made to your manuals through updates that have been issued during the year, as well as news of other updates that are coming soon.

New SAMs

You may also recall from last year's newsletter that we had plans to extend our SAM range. We referred to two new SAMs that were being considered – service charge accounts and the administration of trusts. Unfortunately key regulations affecting service charge accounts were delayed again during the year and are now expected to be introduced for accounting periods beginning on or after 1 October 2009. We will let you have more news on this and therefore our plans as soon as we see the new regulations.

A specialist assignment manual covering the administration of trusts remains on our development agenda.

Charities

The 03.09 update to the Charities SAM had to absorb more than its fair share of changes this year. To begin with, there were three different pieces of legislation, each with a slightly different application date to deal with. In addition to this, as the manual has to cater for the differing rules in the different jurisdictions of the UK, as well as for the different levels of assurance service (ie. audit, independent examination and audit exemption report), it seemed as though barely a page of the manual was going to remain unaltered!

In theory, the recent legislative changes are intended to bring the sector closer together. However, in the interim transitional period, they make the rules more complicated than ever. Firstly, the 6th Commencement Order of the Companies Act 2006 introduced the independent examination regime to limited company charities (in all of the UK except Northern Ireland). This applies to accounting periods starting on or after 1 April 2008. Next, for all the relevant areas that affect the manual, the Companies Act 2006 replaces the 1985 Act for accounting periods starting on or after 6 April 2008. Then, just as the manual update was locked and ready for release, a further Statutory Instrument (innocuously entitled "The Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009") was issued towards the end of March 2009. It surprised just about everyone with its effective date of accounting periods ending on or after 1 April 2009. We therefore had to revise the update again at this late stage.

The majority of the changes affect the example engagement letters and reports in sections B and C of your manual and we know that many of you have found the summary table at C0 of the manual a valuable addition. The update also took account of guidance from the ICAEW, ICAS, the Charity Commission (CC), the OSCR and the APB (Practice Note 11 revised, Bulletin 2009/1 and revised Ethical Standards). A further Bulletin from the APB is awaited.

Perhaps unsurprisingly given all of the above, since the update was issued our technical helpline has been buzzing with queries. We therefore intend to send out a small update to the manual next month to clarify the position further, as well as to embrace changes made in an imminent update to our corporate audit manual.

Beyond this, we hope there will be a period of calm but as the CC for Northern Ireland finds its feet and when secondary legislation on Charitable Incorporated Organisations is passed, we will of course let you know.

Estate Agents

Following the extensive rewrite of this manual last year, the current year has been much quieter. An update to this SAM will be issued later this year to include:

- the requirements for Estate Agents not registered with the FSA to register with the Trading Standards Agency for money laundering regulation purposes from July 2009;
- the requirement under the Consumers, Estate Agents and Redress Act 2007 for Estate Agents to be members of approved redress schemes; and
- the establishment of the Property Ombudsman Service (TPOS), formerly the Ombudsman for Estate Agents (OEA).

Revised formats for the reports to NAEA and ARLA will also be included. There is no change to the content of either, but both forms incorporate new logos and clarify the qualifications currently required for reporting accountants.

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

This summer will see updates to both the MGI and DIF SAMs issued, bringing them into line with the latest changes to the FSA Handbook and company law.

MGI

The update will include revised engagement letters in accordance with the Companies Act 2006 and will expand the guidance notes to cover Connected Travel Insurance (CTI) firms and the FSA's new reporting system, GABRIEL. Thankfully there have been no changes to the client money rules, so the update should have minimal impact on your audit work.

DIF

Early in 2009 we issued an interim update to your DIF SAM which was available to download from our website (dated 02.09). The update dealt with the removal of the 'non-

directive' client money chapters from the FSA Handbook, and we will further consolidate this change throughout the manual in the forthcoming summer update. We will also expand and restructure the guidance notes and include revised engagement letters in accordance with the Companies Act 2006. A new audit report for 'negative assurance' opinions will also be included to help make it easier for you to select and issue the correct report.

Looking ahead...

Further changes are on the horizon, as the FSA shakes up the regulation of investment services following the Turner Review, in the wake of last year's financial meltdown. We expect final rules to be issued towards the end of 2009 and will revise your DIF SAM as necessary.

Audit Exemption

The significant 01.09 update to the Audit Exemption SAM introduced Companies Act 2006 and FRSSSE (effective April 2008) example letters, reports, proforma accounts and disclosure checklists to the manual. The new Companies Act 2006 versions of these documents should only be used for accounting periods beginning on or after 6 April 2008; that is April 2009 year ends and onwards for most.

In this update we also included news of the move to downloadable updates and the next imminent update to this manual will be made available on our website in this way. For more information about this move see 'Important News Regarding Update Delivery' overleaf.

Solicitors' Accounts Rules

There have been two updates to the Solicitors' Accounts Rules SAM over the last 12 months, along with a recent email alert.

The first update, in July 2008 dealt with changes in the rules concerning balances remaining on the client account. In essence, with effect from 14 July 2008, a new requirement for the prompt return of surplus balances at the end of the matter was introduced. This was coupled with the requirement to inform clients in writing of any funds deliberately retained at the end of the matter. At the same time, solicitors were permitted to withdraw small (<£50) balances and make payments to charity without prior permission of the Solicitors Regulation Authority (SRA).

A second update was issued in April 2009 following changes to the rules which came into effect on 31 March 2009. The most notable changes were the revised Accountant's Report

Form (AR1) and amendments to the wording of the engagement letter incorporating whistle blowing responsibilities. Both of these changes were incorporated into this update although it should be noted that subsequently the SRA issued a further revision to the AR1 form of which we advised you via email alert earlier in July (please note, at this time the SRA also issued a Word version of the report). Other changes, effective from 31 March 2009, were the removal of the concept of controlled trusts and changes to the rules to allow 'managers' who may be non-solicitors to authorise withdrawals from the client account.

What's next?

It is likely that there will be future amendments to the rules as further changes are required as a result of the Legal Services Act. We will continue to monitor these and update your manual as necessary.

Registered Social Landlords (RSL)

The 05.09 update to the RSL SAM dealt with a number of legislative changes arising from the Companies Act 2006, Charities Act 2006, as well as a new SORP from the National Housing Federation and new guidance from the Housing Corporation, which has now been replaced by the Tenant Services Authority following the introduction of the Housing and Regeneration Act 2008.

The introduction of this new Act is important for the sector as it has seen the role of the Housing Corporation split between the Homes and Communities Agency, principally to deal with finance, and the Tenant Services Authority (TSA) to deal with regulation.

At the time of going to print the relevant sections of the new Act that deal with 'accounts' had not been brought into force. As they are, and we begin to report under the new Act, we will see further changes to the reports within the manual.

Additional regulatory guidance for the sector in the form of circulars and guidance notes can still be found on the Housing Corporation's website and after a period of consultation, new guidance will be issued by the TSA itself.

Looking forward, we can also expect to see a new SORP in 2010, with the current consultation looking specifically at impairment, business combinations and the treatment of goodwill and intangibles on acquisition. A new General Determination for Wales is also expected.

Clubs and Friendly and Industrial and Provident Societies (FIPS)

Compared to some of our other specialist areas, life has been reasonably quiet in the arena of FIPS and Clubs! There have been no significant changes to Friendly Society or Industrial and Provident Society legislation over the last year and in particular the audit exemption limits have not moved in line with those in the Companies Act 2006.

Looking forward however, we can expect to see changes arising from the Co-operative and Community Benefit Societies and Credit Unions Bill 2008-09, which was introduced into parliament in June 2009.

Earlier this year the APB issued Practice Note 27 - The Audit of Credit Unions in the United Kingdom to provide specific guidance

to auditors of these types of organisation. The next update to the Friendly and Industrial and Provident Societies SAM will take account of this additional guidance.

The Clubs SAM will also be updated to take account of the 'Improved Audit Methodology' discussed overleaf, later in the summer.

Pension Schemes

The past year has been a fairly quiet time for pensions regulation. You may recall that previous to this, the Pensions SORP was issued in respect of accounting periods beginning on or after 6 April 2007.

The next update to your manual will incorporate the 'Improved Audit Methodology' discussed below.

Limited Liability Partnerships (LLP)

The application of the Companies Act 2006 dominates the forthcoming update to the LLP SAM. You may recall that the application of the new Act to LLPs does not, in most cases, take effect until accounting periods beginning on or after 1 October 2008; that will be September 2009 year ends and onwards for most.

During the crossover period you may be working on Companies Act 1985 or Companies Act 2006 audits and we will introduce two folders to the manual, containing versions of the engagement letters, audit reports, disclosure checklists and proforma accounts in accordance with each Act.

Remember! The new Act cannot be adopted early.

Important News Regarding Update Delivery

Recent updates to our technical manuals have contained news of a move away from CD updates. Technology is such that we no longer need to send CDs out to you, so there will be no more updates that are lost in the post!

You may already be aware that you can download full copies of your manuals from our website. Going forward, we will simply email you to let you know when an updated manual is available to download. News of updates will also be announced on the home page of our website, along with the latest updates page www.mercia-group.co.uk/technical_manuals/updates.htm. This will mean that you will always have access to the latest version of your manuals and we will be able to issue minor amendments more quickly and effectively.

Keeping in touch

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.

Clearly going forward it is essential that you keep us up to date with your contact details and should these change, please let Sarah Moore know in writing, by email, sarah.moore@mercia-group.co.uk, by fax on 0116 258 1250, or at the address overleaf.

In order to download your manuals you will need to login to our website - email alerts announcing update news will contain a note of your username and how you can be reminded of your password if necessary.

Specialist Training

We hold a number of courses over the year that provide specific training on the use of our Specialist Assignment Manuals. The three different courses cover charities, pension schemes and our 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 at www.mercia-group.co.uk/technical_manuals/specialist_assignments_training.htm

We also run a number of courses that cover specialist sectors through our specialist course programme. Details of the current programme can be found on our website at www.mercia-group.co.uk/training/specialist.htm

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

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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Improved Audit Methodology

In our last SAM newsletter we announced news of a review of our standard audit documentation. After three or so years auditing under the ISA+s and the issue of Practice Note 26, the time was right to consider how our documentation might be improved.

The first stage of the review has focussed on audit planning, specifically looking to improve the linkage between risk, key internal control objectives, audit assertions and how these impact on your audit approach. Key forms that were revised in our corporate manual were B32 (risk assessment) and B33 (individual area audit plans).

Another enhancement to this manual was the introduction of a freeform planning memorandum. This provides an alternative, optional approach to planning to the standard Mercia audit planning documentation. Of course, subscribers have the option to continue with their own planning memorandum, whether supplemented by the Mercia standard documentation or not. The new Mercia freeform approach uses data fields to help make the approach as efficient as possible.

Subscribers to our Charities and RSL SAMs have already had sight of this new documentation; it will also appear in our LLP, Pension Schemes and Clubs SAMs soon.

Specialist Assignment Manual Order Form

Are you aware that regulators place increased emphasis on specialist assignments?

The Mercia Specialist Assignment Manuals (SAM) will save you hours of research and keep you up-to-date with relevant rules and regulations.

A variety of assignments are covered:

- Clubs
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- Limited Liability Partnerships
- FSA Designated Investment Firms
- FSA Mortgage and General Insurance Intermediaries
- Audit Exemption

Each manual contains guidance notes summarising relevant rules and regulations, engagement letters, example reports, pro-forma accounts and disclosure checklists (where applicable) and detailed work programmes, including bespoke planning and completion documentation.

Updating service

Updates will be automatically sent to you. These are covered by an annual subscription of £55 (£50*) per manual which will be invoiced on 1 July each year to cover all updates issued in the subsequent twelve months. New subscribers to the manuals will receive all updates between the date of purchase and the next 1 July free of charge.

The fee will entitle you to all routine updating, if however, a major rewrite is required due to a substantial change in legislation you may be notified of an additional fee.

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(Clubs registered under these Acts are covered in the clubs manual)
- Limited Liability Partnerships
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