



Revised Ethical Standard

Impact on internal audit services for academies

What has changed?

In December 2019, the Financial Reporting Council issued a revised Ethical Standard, which governs the way in which audits are conducted.

The revised ethical standard confirms that audit firms will be prohibited from providing internal audit services to audit clients that exceed the small company thresholds. This change is effective for periods beginning on or after 15th March 2020 and so will impact the provision of internal audit services for the year commencing 1 September 2020.

The revised Ethical Standard confirms that:

“In the case of statutory audit, non-audit services shall not be provided that involve playing any part in the management decision-taking of an entity relevant to an engagement. The firm shall not accept any engagement which includes the provision of services where it is probable that an objective, reasonable and informed third party would conclude that the firm or a covered person was playing a part in management decision-taking.”

The standard goes on to confirm that audit firms should not take responsibility for:

“Designing, implementing and maintaining internal control”

The Impact

Accordingly, you will need separate providers for the internal and external audit provision from 1 September 2020.

The external auditor will of course still be permitted to make comment on internal controls and systems observed, reviewed and tested during the course of the statutory audit work in support of the audit opinion. The external auditor is also permitted to make comment on errors identified within the accounting records and the financial statements and provide suggestions for correcting them. In addition, the external auditor remains able to provide advice on accounting policies in use and on the application of current and proposed accounting standards.

You can also still engage your external auditor to provide other audits for example the Teacher's Pension End of Year Certificate and the audit of your annual accounts return.

The provision of other non-audit services

In keeping with previous years, the external auditor is still required to identify any threats to their integrity, objectivity and independence that may arise from the provision of other non-audit services.

Where threats are identified the external auditor is required to remove or reduce the threats or to apply safeguards, which are sufficient to eliminate or reduce the threat to an acceptable level. If this cannot be achieved the external auditor should not carry out the non-audit service in question.

Preparation of the Financial Statements

It is often the case that the external auditor prepares the Trusts financial statements. This does present a self-review threat, as the auditor will be considering the accuracy and completeness of their own work. This threat should be capable of being mitigated to an acceptable level through safeguards that your auditor will need to communicate to the board.

The preparation of the accounts needs to be a purely mechanical exercise, in that your external auditor posts your fund accounted trial balance onto their accounting software and produces your accounts in accordance with the academies accounts direction. If however the auditor takes part in the decision making process by preparing and posting accruals, prepayments depreciation etc., or takes part in allocating expenditure against funds they run the risk of being involved in management decisions concerning your accounts and this presents a management threat.

Where a firm does have a management threat the revised ethical standard confirms that the audit firm is prohibited from providing the non-audit service as such threats cannot be mitigated or reduced to a sufficiently acceptable level. It is therefore imperative that you fund account and prepare year-end adjustments such as depreciation, accruals and prepayments.

Tax Services

From time to time, you may engage your external auditor to provide tax services. They are required to review the provision of tax advice on a case-by-case basis to establish whether they can reduce any threats to their integrity, objectivity and or independence that may arise as a result of the provision of the tax advice. Tax services must not involve initiating advice or taking management decisions and the Trust receiving such services must have informed management.

How can we help?

Our Sittingbourne office has a specialist academies team who are keen to hear from you. We deliver a full range of audit and accountancy services to Academies. Please contact **Clair Rayner** or **Ashley Phillips** on **01795 479111** or **clair.rayner@mfw.co.uk** or **ashley.phillips@mfw.co.uk** to see how we can help.