

# **FEEDBACK PAPER ON THE CONSULTATION DRAFT OF PRACTICE NOTE 24 “THE AUDIT OF FRIENDLY SOCIETIES IN THE UNITED KINGDOM (REVISED)”**

## **Introduction**

- 1.1 In January 2011 the Auditing Practices Board (APB) issued for public comment a Consultation Draft of a further revision to Practice Note 24 “The audit of friendly societies in the United Kingdom (Revised)” (PN). The previous revision of PN 24 (Revised) had been issued in January 2007.
- 1.2 The Consultation Draft gave effect in the PN to:
- The issuance of the clarified ISAs (which apply to audits of financial statements of Friendly Societies for periods ending on or after 15 December 2010); and
  - Changes in the legislative and regulatory framework.
- 1.3 In addition new or enhanced guidance was included with respect to the following:
- Auditing accounting estimates;
  - Materiality;
  - Evaluation of misstatements identified during the audit; and
  - The illustrative examples of various regulatory auditor’s reports that are addressed to the FSA.
- 1.4 Friendly Societies are mutual insurers and as such are authorised and regulated by the FSA. Much of the content of the Consultation Draft is derived from PN 20 “The audit of insurers in the United Kingdom (Revised)” which had been issued in January 2011.
- 1.5 The four respondents to the consultation are listed in the Appendix. FSA staff had provided input on the Consultation Draft prior to its issuance.

## **Overall satisfaction with the proposals**

- 2.1 Although some commentators made a number of detailed recommendations with respect to the proposed text they expressed a high degree of general satisfaction with the proposed PN.

## **Corporate Governance**

- 3.1 The Association of Financial Mutuals (AFM) pointed out in its response that the annotated version of the Combined Code which was referred to in the Consultation Draft had been superseded by an annotated version of the UK Corporate Governance

Code. References to the Code have been corrected in the final version of PN 24.

- 3.2 At the date of publication of PN 24, the AFM had yet to update the guidance to its members indicating which provisions of the UK Corporate Governance Code an auditor should be engaged to review. To reflect this situation, the proposed content of PN24 (particularly paragraph 242) has been revised to be non-specific about the Code Provisions that auditors are recommended to review.

### **Detailed Drafting Suggestions**

- 4.1 The accountancy body and the auditing firms made a number of detailed drafting suggestions. These suggestions have been taken up where they would lead to the addition of useful new information in the PN.
- 4.2 One audit firm made a number of suggestions for additional cross references to the FSA's Rules. As the PN is not intended to be a substitute for knowledge of the FSA's Rules, and the lack of the references does not detract from the meaning of the related text, these changes have not been adopted.

### **Future guidance relating to friendly societies**

- 5.1 The APB has agreed that because of the close similarity between the content of PN 20 and PN 24 that in future APB's guidance relating to friendly societies will be included as an appendix to PN 20.

**RSPONDENTS TO CONSULTATION DRAFT OF PN 24**

**Accountancy body**

- 1) The Institute of Chartered Accountants in England & Wales

**Auditing firms**

- 2) KPMG LLP
- 3) PricewaterhouseCoopers LLP

**Trade association**

- 4) The Association of Financial Mutuals