Audit News – Autumn 2020

We have had a number of queries from Audit Compliance Principals around receipt of Audit News. All Responsible Individuals in your firm should receive a copy by email. If this is not the case, please contact us, however, note that the most common issues are when:

- ICAS do not hold an up to date email address for the individual.
- The individual has indicated elsewhere (such as on their own annual return) that they do not wish to receive email communications from ICAS.
- Emails get caught in an anti-spam filter.

Note that the best way to ensure you receive all communications from ICAS is to whitelist the email that these communications come from (the vast majority come from update@update.icas.com). You can do this by:

- Adding us as a contact on Outlook and marking us as a safe sender.
- On Gmail, marking messages as 'Not Spam' when finding them as well as adding us as a contact.
- On Apple Mail, search for any messages in Junk, go to 'more' and mark as 'not junk'

Audit Monitoring update

2020 Audit Monitoring visits

As a result of the COVID-19 pandemic, and related restrictions, ICAS has decided to suspend all face-to-face monitoring activities until further notice. We have, however, contacted all firms due to receive an Audit Monitoring visit in 2020, with a view to conducting visits remotely. We will continue to be mindful of government guidance and will update all firms selected for a visit as the year progresses.

Please note that we are conscious of the difficulties that everyone is facing within the profession at the moment, however, are also required to ensure that our regulatory responsibilities are undertaken.

Mandatory audit quality course: Keeping Audit on the Right Track

This course aims to educate Audit Compliance Principals (ACPs) and Responsible Individuals (RIs) in developing a strong compliance function and preventing some of the recurring issues identified on audit monitoring visits.

As highlighted in the previous edition of audit news, the COVID-19 pandemic, and related restrictions, has resulted in the planned 2020 face to face courses being cancelled. The Committee has approved the following changes to the course, and to mandatory attendance going forward:

- A video recording of the course will be made available on the website from September. This is free for members to access any time they wish and is split into seven modules which can be viewed together or individually.
- Should members prefer to attend a face to face course, from 2021 (subject to government guidance) we will present one course each year, in Edinburgh, Glasgow and

Aberdeen. The cost of attendance will be in line with previous years, and further information will be provided on **CA Connect**.

- **Firms are reminded that the mandatory aspect of this course has been updated. All ACPs and RIs are now required to view all modules of the online course, or attend a face to face course, once every 2 years (commencing from 1 September 2020). The Committee considers that the availability of the course online will ensure that this mandatory aspect will be more easily adhered to, and that this will maintain the focus on audit quality**.

2019 Audit Monitoring Annual Report

Our annual report for 2019 is now available to download from icas.com.

As in previous years, this report aims to provide transparency over our work and includes:

- An overview of the activities of ICAS Audit Monitoring during 2019; and
- Key messages and detailed findings arising from monitoring visits.

Whilst we identified a number of areas where audit firms had improved against previous findings, 2019 proved to be another challenging year for firms, particularly with ongoing developments in reporting and regulatory environments. As such, we have unfortunately seen that, for the second year, the Authorisation Committee has placed more firms on follow-up action than those it has not.

We hope that you find the report useful in considering how effectively your firm is complying with regulatory requirements. We encourage you to share the report with your colleagues, and also to utilise the key messages when conducting your own Audit Compliance Review process.

If you have any comments or questions, please contact us at auditandpracticemonitoring@icas.com

FRC publishes annual report and results of annual audit inspections

The Financial Reporting Council (FRC) has published its annual report, setting out significant progress to implement the recommendations for change of the FRC itself and in the activities it regulates.

The FRC has brought forward many of the recommendations of Sir John Kingman, the CMA and Sir Donald Brydon as, under new leadership, it progresses with transformation into the Audit, Reporting, Governance Authority (ARGA). To drive the transformation forward, the FRC has concluded a thorough review of its governance and structure.

The FRC has also released its latest audit inspection results. Each year the FRC reports publicly on the findings of its inspection activity at the seven largest firms. Together with an assessment of each firm's quality control systems, the Audit Quality Review (AQR) team reviewed 88 audits across these firms and concluded that only two thirds of the audits were of a good standard or required limited improvement.

The FRC annual report can be found here.

A link to the seven AQR inspection reports can be found here.

ICAS & CAW – show that you are part of something bigger

In times of global crisis, it's good to know that you are part of something bigger and stronger.

As an ICAS Member not only are you part of our global business network of over 22,000 CAs, you're also a member of the Chartered Accountants Worldwide Network.

What is the Chartered Accountants Worldwide Network?
Chartered Accountants Worldwide brings together 14 of the world's leading institutes of Chartered Accountants, including ICAS, to form a global network with a combined total of 750,000 members across 190 countries. The network plays an important role in protecting, promoting and developing the Chartered Accountancy brand and profession, a role that's arguably never been more important.

Lead the way and display the CAW logo
We have been encouraging all our Members to download the exclusive CAW Network Member logo to display in conjunction with their CA designation and their ICAS Member logo on business cards, email signatures and social-media profiles, etc. Doing so helps to promote the profession and indicates to business leaders and clients that you're more relevant to helping them locally and internationally.

Download the CAW logo

It's perhaps now more crucial than ever for CAs to stand together and promote the values and high standards to which we all aspire.

COVID-19 updates and guidance

COVID-19 restrictions and delivering high quality audit work – a reminder

In the period since lockdown commenced back in March 2020, given restrictions on travel and access to client premises and sites, auditors have faced a number of practical difficulties in carrying out audits.

It is extremely important that the current situation does not impact the delivery of high-quality audit work, and that this work continues to comply fully with the auditing and ethics standards. While additional time may be required to complete audits, it is important that this is taken, in particular where circumstances have changed during the audit process. In some cases, this may require entities to reconsider their reporting deadlines.

Firms are advised to engage with their audit clients as early as possible in the audit process to:

- set clear expectations as to the level of disclosure required in the financial statements covering the impact of COVID-19;
- discuss going concern, including the prospects of the entity given uncertainty about the economy, expectations for disclosure in the financial statements, and potential for impact on the audit opinion;
- ensure audit teams have sufficient time to carry out their work to an appropriate standard; and
- set clear expectations that where the auditor is unable to obtain sufficient, appropriate audit evidence, this could result in modifications to the audit opinion.

Further guidance can be found on the ICAS and FRC websites:

- Specific guidance on audit, accounts and corporate reporting can be found here: https://www.icas.com/professional-resources/coronavirus/practice/accounts-audit-and-corporate-reporting

- The FRC has provided further guidance for auditors, covering specific audit issues including going concern considerations, gathering audit evidence during lockdown, group audit restrictions; and modified audit opinions - https://www.frc.org.uk/covid-19-guidance-and-advice

As part of the ICAS commitment to supporting the welfare of our members, students and staff, a hub has been launched for information and resources relating to the impact of the Coronavirus pandemic: https://www.icas.com/professional-resources/coronavirus

COVID-19 – audit engagement letters

Given that auditors may be faced with changes to day-to-day working practices, including travel restrictions, social distancing, limited access to client site and premises, there will be increased reliance on technology in the performance of audit work. The scope and administration of the audit process may change significantly from client to client depending on the circumstances of that entity, together with the working practices of the firm itself.

It will therefore be important for auditors to consider whether any changes are required to the audit arrangements and terms set out in the letter of engagement, including any impact on GDPR, and safe custody of client records and information. These terms should be revisited regularly for the foreseeable future.

COVID-19 – consideration of impairment and recoverability of assets

The COVID-19 pandemic has had a significant impact on the business and operations of a large number of entities.

The volatility in the economy, together with uncertainty over the longevity of the impact of COVID, may have consequences for the carrying value of assets in the balance sheet.

The assumptions underlining the carrying value or recoverability of assets are impacted by economic uncertainty and, in this regard, COVID-19 has had ramifications for a large number of entities. Indicators of impairment in the pandemic may include:

- Reduced business activities
- Reduced demand for goods or services
- Supply chain problems
- Customers in financial difficulty (e.g. cancelled or delayed orders, bad debts, etc)
- Negotiation of increased credit terms or discounts with customers
- General decline in stock market and share prices impacting investments

Consequently, audited entities will have to consider if any assets should be written down to net realisable value. Impairment and recoverability of assets will have to be appropriately considered and tested on the audit file, including (but not limited to) review of intangible assets such as goodwill; property plant and equipment; investments in subsidiaries and joint ventures; inventories; and debtors:

- The fair values of, property, investments, associates and joint ventures might be affected by market volatility, and auditors will require to focus on the approach taken and assumptions used in determining fair value at the period end compared to the carrying values in the financial statements.

- Auditors should similarly consider evidence supporting reviews for impairment of assets, including property, plant and equipment. Examples may include where an entity has closed sites or factories or had to stop using machinery or equipment. Auditor's considerations will include an assessment of assumptions used by management, and appropriateness of value-in-use calculations.

- Consideration of fair value calculations should also include assumptions used in defined benefit pension valuations and share option valuations.

- Inventories should be considered for risk of declining selling prices, and it might be necessary to write-down inventories to net realisable value (NRV). Auditors should also consider any additional costs (e.g. price increases due to market pressures or change of supplier, additional transport costs and duties) that may increase the cost of certain inventories above NRV.

- Auditors may also wish to consider whether loans payable or receivable in relation to connected or group entities, and consequently investments in associates and joint ventures, are impaired.

- Auditors should consider whether there are any implications on distributable reserves, and any consequent impact on the legality of current and future dividends.

- As with any audit, the auditor should consider whether assets held on the balance sheet are recoverable but should consider in light of any newly identified risks. This should include review of the recoverability of any recognised deferred tax asset.

As impairment reviews must be based on conditions that exist at the reporting date, another important consideration is whether any significant events resulting from the outbreak of COVID-19 reflect an adjusting or non-adjusting post balance sheet event. There is a general consensus that the outbreak of COVID-19 in 2020 would be a non-adjusting event for the vast majority of UK entities preparing financial statements for periods ended 31 December 2019.

For later reporting dates, however, entities will need to apply judgement to their assessment of adjusting and non-adjusting events, which will depend on the specific circumstances of the company's operations and particular events under consideration at that reporting date.

Forecasting the future cash flows that will be generated from using an asset will be a key challenge in carrying out impairment reviews for later reporting dates. Any value-in use forecasts must be based on assumptions reflective of conditions which existed at the balance sheet date, however, where there has been significant impact on cash flows and profits, and given uncertainty over duration of impact into the longer term, estimation will be difficult and it may not be possible to base estimates on a comparative period.

Significant professional judgement will be required to make assessments at the reporting date, which will provide a challenge for auditors in obtaining suitable evidence and in considering the suitability and accuracy of disclosures in the financial statements.

The FRC, in its thematic review of COVID-19 disclosures issued July 2020, has raised a number of points around disclosure of impairment, and significant judgements and estimates.

FRC thematic review of company reporting

The Financial Reporting Council (FRC) has completed its first thematic review of company reporting since the onset of COVID-19 pandemic.

The review found that although companies provided sufficient information to enable a user to understand the impact COVID-19 had on their performance, position and future prospects, some - particularly interim reports - would have benefited from more extensive disclosure. The review includes a number of recommendations including ensuring that disclosures:

- explain the significant judgements and estimates made in preparing their accounts and provide meaningful sensitivity analysis or details of a range of possible outcomes to support any disclosed estimation uncertainty.
- describe any significant judgements made in determining whether there is a material uncertainty about their ability to continue as a going concern.
- ensure that assumptions used in determining whether the company is a going concern are compatible with assumptions used in other areas of the financial statements.
- apply existing accounting policies for exceptional and other similar items to COVID-19 related income and expenditure consistently and should not split income and expenses between COVID-19 and non COVID-19 financial statement captions arbitrarily.
- prepare interim reports that provide sufficient information to explain the impact that COVID-19 has had on their performance, position and future prospects.

The audit of construction companies – common issues from monitoring visits

Construction is a priority sector for the FRC in 2020/21. Over the last 12 months, the monitoring team has raised a number of issues on construction company audit files.

In this article we look at the most common issues raised during our monitoring visits. Issues are raised most frequently around testing of long-term contracts, which is also an area of focus for the FRC.

When approaching the audit of a construction company, auditors face a variety of issues. Entities which operate in the industry are susceptible to increased financial risk, significant competition, low or variable margins, and extreme fluctuations in demand. Given the high-profile failure of Carillion, a rise in the number of construction companies entering administration and economic uncertainty, it is no surprise that the sector is a priority area for the FRC.

Over the last 12 months, the ICAS audit monitoring team have raised a number of common issues on the audit files of companies in the construction industry. Most issues are raised around work performed over long term contracts, as this is often a significant risk area and can involve management estimates which impact a number of areas of the financial statements, however, other issues are raised frequently in relation to work over:

- Recoverability of retention debtors
- Going concern
- Laws and regulations

Note that on files which contain more marked issues, the monitoring team often concludes that the risk assessment process has not addressed these areas sufficiently, and frequently the auditor has assessed risk over transactions and balances which contain significant judgements and estimates as ‘low’ without suitable justification. When considering the key areas below, firms are advised to consider how these are reflected in the initial risk assessment process and how this impacts audit approach, as we often find key testing has been omitted or reduced to such a level that insufficient evidence has been obtained.

Long-term contracts

Accounting for long-term contracts can require significant estimation and, consequently, there can be a great degree of management judgement required in preparing the financial statements of a construction company.

Often estimates can be difficult to substantiate, especially where corroborating or comparative information is not available and therefore can be very challenging to audit. The FRC have reported frequently that audit teams struggle to challenge management in key areas of judgement and subsequently struggle to obtain sufficient evidence to support judgements made, including estimates around future costs, margins, and onerous contracts.

Key issues raised on ICAS monitoring visits include:

1) Insufficient work performed over stage of completion of contracts

- Where stage of completion is based solely on reliance on an internal Quantity Surveyor (QS) without any further detailed testing (for example, to cumulative valuations or statements by an independent QS / the customers own QS). In this situation, the auditor often hasn’t recognised that the internal QS cannot be considered independent as they are employed by the audit client.
- Where stage of completion for a job or contract is based solely on an uncorroborated management estimate (for example, a round sum percentage) with no further testing.
- Where the auditor has not considered whether a valuation used as independent evidence is at the year-end date and, if not, whether further work should be performed in the gap period.

2) Insufficient work performed in testing contract costs and costs to completion

- When testing costs incurred to date, audit teams often concentrate on materials and omit subcontractor costs and attributed overheads. Often walkthrough tests will also miss the system for incorporating subcontractor costs into the job cost ledger.
- Where cost to completion is presented as an uncorroborated management estimate with no further testing (for example, by review of quotes; review of post year-end evidence to verify the accuracy of these estimates etc).
- Often there is no rolling review of estimated cost vs actual cost, including consideration of contracts completed during the year - this can be used to corroborate the accuracy of management’s estimates over time.
- Audit files often do not follow up where costs have exceeded revenue on specific contracts. Similarly, there is sometimes a lack of consideration of the cumulative impact of cost overruns where this has happened on a number of contracts completed during the year or post year-end.

3) Insufficient work performed when testing completeness and accuracy of revenue

- Testing often excludes consideration of whether all contract variations have been reflected in turnover (for example, by testing to completion certificates).

- We have raised issues where reliance has been placed on a weak or insufficient analytical review process - for example, by a 'test in total' to the job cost ledger without any further corroboration or evidence gathering required by ISA (UK) 520.
- Often there is a lack of review post year-end review for verification of contract completion, or for contract omissions.

Recoverability of retention debtors

The monitoring team often raise issues on debtor recoverability, and principally in relation to retentions. The most common issue is where retentions, which have not been received post year-end and may have been outstanding for a significant period, are considered to be recoverable per management, but the auditor does not corroborate this or accepts managements explanation as 'evidence' without further consideration.

A similar issue has been noted on files where management has reduced the retention debtor by a fixed percentage 'bad-debt' provision and this has been accepted by the auditor without further testing. In both scenarios, the auditor should look for sufficient evidence, and be aware of any contradictory evidence, including a review of retention history in support management's explanations.

Going concern

As noted above, going concern can be a significant issue in the construction industry. As with all companies, it is the responsibility of the directors to assess the company's ability to continue to adopt the going concern basis of accounting and to disclose any material uncertainties. It is the responsibility of the auditor to consider whether they are in agreement with these conclusions and disclosures and report accordingly.

The most common issue raised on monitoring visits is where:

- The financial statements, from independent review, include indicators of material uncertainty, however there are no suitable disclosures by the directors and the auditor has signed a clean opinion; AND
- The audit file does not include sufficient consideration in this regard or adequately support the conclusion in the audit report.

While the issue is often found to be with the documentation on the file, rather than with the audit opinion, more serious issues have been raised where the reviewer has disagreed with an unmodified opinion. It is therefore vital that the audit file documents all work performed in support of the auditor's conclusion. The most common issues in this regard are:

- A lack of consideration where management's assessment of the entity's ability to trade as a going concern covers a period of less than 12 months.
- Where work performed concentrates solely on the availability of funding rather than sustainability of work or profitability of contracts.
- Inappropriate reliance on long term contract work elsewhere on the file in support of the going concern conclusion.
- No consideration of estimates and assumptions used in budgets and cashflows. More serious issues have been raised where assumptions used by management (and explanations provided) are contradicted by audit work elsewhere on the file.
- A lack of work over bank loans and covenants.
- No conclusion over the adequacy of director's disclosures in the financial statements.

There are a number of additional articles on going concern on icas.com and in previous editions of audit news. Specific guidance in relation to going concern and COVID-19 can be found [here]().

Laws and regulations

While it is management's responsibility to ensure that an entity's operations are conducted in accordance with applicable laws and regulation, the auditor has responsibility in relation to compliance with these laws and regulations, especially where non-compliance would have an impact on the financial statements.

The auditor is therefore required to gain an understanding of the legal and regulatory framework in which the audited entity operates, to help identify and assess the implications of non-compliance.

Laws and regulations in relation to the constructions sector are wide ranging and can vary depending on the type of construction – though often covering common areas such as health and safety; employment and subcontracting; building safety; and handling or disposal of hazardous materials.

The most common issues raised in relation to laws and regulations are at the planning stage. Often, consideration has not formed part of the risk assessment process with majority of work in this area restricted to a checklist ticking exercise at fieldwork or completion; or where work is limited to a high-level summary of relevant laws and regulations without any linkage to audit approach or risk.

Firms are reminded of the requirements of ISA (UK) 250A in this regard – especially in a heavily regulated area such as construction – and should ensure that the file reflects appropriate consideration at planning including:

- Which laws and regulations have a direct effect and an indirect effect on the financial statements.
- How the entity ensures compliance with the legal and regulatory framework.
- The audit approach to obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations considered to have a direct effect on the material amounts and disclosures in the financial statements.

Often, work performed is limited to a discussion with the directors or management without further corroboration. In the construction industry, the client should have delegated responsibility for compliance within the entity to an individual or team (this may also be a director or member of the senior management team) which should be ascertained at the planning stage and appropriate discussions held. The risk assessment process should be used to drive the audit approach, which may involve (but is not limited to) inspection of independent reports and certification; review of minutes of meetings for potential issues; review of accident registers; and media or internet review.

Provision of non-audit services – changes made by the 2019 Ethical Standard

The revised Financial Reporting Council (FRC) Ethical Standard 2019 (ES 2019) applies for accounting periods commencing on or after 15 March 2020.

As highlighted in our Summer 2020 Audit News, the FRC has made a subtle but significant change to requirements in relation to long association for non-PIE audit entities.

Further changes have been made in relation to the provision of certain non-audit services as set out below.

To support the delivery of high-quality audit in the UK, the FRC has issued a major revision to its Ethical Standard. The changes in the Revised Ethical Standard 2019 (ES 2019) incorporate changes to international ethical requirements which include a number of prohibitions and changes in the area of non-audit services.

Public interest entity (PIE) auditors will now only be able to provide non-audit services which are closely linked to the audit itself or required by law or regulation. In a significant change from the previous version of the standard, rather than providing a blacklist of non-audit services, ES 2019 provides a prescribed list of services which may be provided (i.e. if the service is not on the list it must not be provided to PIEs, their parents or controlled undertakings).

In relation to unlisted entities and non-PIEs, there are some new prohibitions and some changes within the wording of the standard which firms should be aware of. Note that a detailed article on the provision of IT services in relation to accounting packages was included in the Summer 2020 edition of Audit News.

Key changes and prohibitions

- **Loan staff assignments** – Staff assignments and secondments have been prohibited, including provision of any partner or employee to work for a temporary period as if that individual were an employee of an audit client or its affiliates.

- **Contingent fees** - Contingent fees are no longer permitted over provision of non-audit services to an audit client. This could be an issue for some firms, in particular those involved in R&D claims.

- **Recruitment services** – Under the revised standard, there is a prohibition on recruitment services to an audit client including taking responsibility for or advising on the appointment of any director or employee of the entity, or a significant affiliate of such an entity.

  Similarly, the firm cannot provide advice on the remuneration package or basis for any director or employee of the entity or a significant affiliate. Advice on tax, pensions and interpretation of accounting standards relating to remuneration packages for directors and key management can be provided by the firm, provided they are not prohibited elsewhere in the standard and are communicated to those charged with governance.

- **Internal audit services** - Firms can no longer provide internal audit services to external audit clients or their significant affiliates. Note that the definition of internal audit in the glossary to the standard is "*a function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes*".

  Firms should therefore take care if the scope of an audit has been extended by management, including consideration of whether a reasonable and informed third party would consider any additional work to be an internal audit service.

- **Tax advocacy** – There are now significant restrictions where the firm acts for an audit client in relation to the resolution of a tax issue. The 2016 standard allowed such services on condition that the issue was either immaterial or the outcome not dependent on a future or contemporary judgement by the firm in relation to the financial statements. The revised standard effectively removes this concession.

  Note that the meaning of an 'advocacy threat' is described in paragraph 1.29 of the standard and includes supporting a position taken by management in an adversarial context, where the firm has to adopt a position closely aligned to that of management.

The firm is not acting as an advocate where the tax services involve the provision of information to the tax authorities (including an explanation of the approach being taken and the arguments being advanced by the entity). In such circumstances effective safeguards may exist and the tax authorities will undertake their own review of the issues.

Wider definition of the 'third party' test

The definition of objective, reasonable and informed third party has been widened with a focus specifically on the "*perspective offered by an informed investor, shareholder or other public interest stakeholder*". Such a person should also be informed about the respective roles and responsibilities of an auditor, those charged with governance and management of an entity, and is not another practitioner.

Identifying management threats from the provision of accountancy services

Further to the above, Part B, Section 1.24 of the standard includes the underlined working**:**

"In the case of a statutory audit, non-audit services shall not be provided that involve playing any part in management decision-taking of an entity relevant to an engagement. <u>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."</u>

While this includes where the auditor is taking an obvious strategic role in the entity, or is involved in non-audit services which are not routine or mechanical, this underlined section when combined with the wider third-party test could result in further challenge from monitoring reviewers on whether a management role is being undertaken.

Per the ES 2019, accountancy services which are not considered 'routine or mechanical' and where it will be difficult to reduce any threat to an acceptable level, include: • authorising or approving transactions; • preparing originating data (including valuation assumptions); • determining or changing journal entries, or the classifications for accounts or transactions, or other accounting records without management approval.

The most common non-audit services provided to audit clients are accounting and tax compliance services, almost always incorporating preparation of the statutory accounts and the corporation tax return and computation. These services principally result in self-review and management threats which must be safeguarded appropriately. Commonly, firms perform these services from a trial balance or underlying records prepared by the client, however, where these services stray into preparation of original data; nominal posting; journals etc firms may struggle to demonstrate that management decisions are not being made.

The monitoring team already raise a number of issues in relation to how consideration of compliance with the ethical standard has been documented. Common issues include:

- a lack of sufficient documentation at planning;
- audit teams not identifying who is considered to be informed management and why; and
- presenting safeguards on the audit file which are not in line with the standard.

We also find frequent issues with how evidence of management approval of adjustments, accounting entries and postings has been obtained, and often files exclude appropriate evidence of approval including meeting notes or formal correspondence*.

***Note** - The standard recognises that it is usual for the firm to provide management with accounting advice on matters that have come to its attention during the course of an engagement. Such matters might typically include:

- comments on weaknesses in the accounting records and suggestions for addressing them;
- errors identified in the accounting records and in the financial statements, or other subject matter information or subject matter, and suggestions for correcting them; and
- advice on the accounting policies in use and on the application of current and proposed accounting standards.

Per the standard, this advice is a by-product of the engagement rather than as a result of undertaking to provide non-audit / additional services. Consequently, as part of the engagement, such advice is not regarded as giving rise to any threat to the integrity, objectivity and independence of the firm and covered persons.

These areas will be subject to more detailed review on audit monitoring visits further to adoption of the new standard, and firms should ensure that they are aware of the requirements of the standard and that these considerations are sufficiently documented to demonstrate compliance.

Firms are also advised to review section 6 of the standard (Provisions Available for Audits of Smaller Entities (PAASE)). This Section provides alternative provisions for auditors of Small Entities, that are not 'public interest entities', to apply in respect of the threats arising when tax or accounting services are provided, though these are subject to additional conditions which are set out in more detail in the standard.

FRC strengthens auditing standard ISA (UK) 315

The Financial Reporting Council (FRC) has issued International Standard on Auditing (ISA) (UK) 315 (Revised July 2020) - Identifying and Assessing the Risks of Material Misstatement).

The revised ISA (UK) will be effective for audits of financial statements for accounting periods beginning on or after 15 December 2021 with early adoption being permitted.

The proposed effective date was set having regard to the fact that the revisions introduce significant changes that firms will have to reflect in their methodologies and also develop and deliver training to staff

The FRC has decided that the revised IAASB ISA 315 can be adopted in the UK without the need for further FRC supplementary material beyond the small amount currently included, in the form of two footnotes, which clarify who are 'those charged with governance' in a UK context and identifies they are the appropriate persons to provide critical written representations in line with ISA (UK) 580, Written Representations. In response to the FRC consultation earlier this year ICAS was supportive of the approach taken by the FRC.

The revisions to the standard are designed to drive a more robust and consistent risk identification and assessment, enhancing the basis upon which auditors design and perform audit procedures that are responsive to the risks of material misstatement and, thereby, obtain sufficient appropriate audit evidence to provide a basis for the audit opinion.

The key revisions are summarised as follows:

Evolving business environment and IT

- Modernising and updating the standard for an evolving business environment. This includes requiring the auditor to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. The related application material has also been significantly enhanced. There is a clearer delineation between the respective work efforts for understanding the IT environment, including information processing activities, as part of obtaining the understanding of the information system, and the requirements to identify and address risks of material misstatement arising from the use of IT related to the IT applications and other aspects of the IT environment.

Use of automated audit tools and techniques

- Taking account of the increasing use of automated tools and techniques by some auditors. There are no specific requirements to use these, reflecting that they are ways that procedures may be carried out but are not necessarily the only ways, but specific application material has been added to give examples of where and how they may be used.

Professional scepticism

- Provisions designed to enhance the use of professional scepticism throughout the risk assessment process, including:
    - Emphasising in the introductory paragraphs the importance of applying professional scepticism.
    - Emphasising the need to not bias the auditor’s work toward obtaining evidence that is corroborative or excluding evidence that is contradictory.
    - Introducing a new requirement for the auditor, towards the end of the risk assessment process, to consider all audit evidence obtained from performing risk assessment procedures, whether corroborative or contradictory, (to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement).

Clarification of purpose of risk assessment procedures

- Clarifying that the purpose of performing risk assessment procedures is to obtain audit evidence that provides an appropriate basis for the identification and assessment of the risks of material misstatement and the design of further audit procedures in accordance with ISA (UK) 330 (Revised July 2017) The Auditor's responses to Assessed Risks.

Importance of understanding of the entity, its environment and the financial reporting framework

- Restructuring the requirement that focuses on the understanding of the entity and its environment, including to elevate the importance of understanding the applicable financial reporting framework.

Inherent Risk Factors

- Including the concept of 'inherent risk factors' to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.

Understanding of internal controls

- Enhancing and clarifying the requirements and application material pertaining to the auditor obtaining an understanding of the entity's system of internal control, including clarifying the controls for which the design is required to be evaluated and implementation determined. To aid understandability, the required understanding for each element of the system of internal control is presented in a tabular format.

Enhanced Requirements pertaining to the assessing the risks of material misstatement

- Enhancing and clarifying the requirements and application material pertaining to identifying and assessing the risks of material misstatement, including:
  - Introducing new concepts and/or definitions for:
    - Inherent risk factors (see above).
    - Relevant assertions - when the assertion about a class of transactions, account balance or disclosure has an identified risk of material misstatement.
    - Significant classes of transactions, account balances or disclosures – those for which there is one or more relevant assertions.
    - Spectrum of inherent risk – the degree to which inherent risk varies. Application material explains how this should be operationalised.
    - Significant risk – an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or that is to be treated as a significant risk in accordance with the requirements of other ISAs.
    - Explaining how control risk is assessed when the auditor does not plan to test the operating effectiveness of controls.
  - Introducing a stand-back requirement to drive the completeness of the identification of the risks of material misstatement by evaluating the completeness of the significant classes of transactions, account balances and disclosures identified by the auditor.

Enhanced Documentation

- Enhanced documentation requirements for the auditor's work in evaluating the design of controls and determining whether those controls have been implemented.
- Enhanced application material giving examples of areas that may be documented to help demonstrate the exercise of professional scepticism.

The revised standard is applicable to all audits, and conforming amendments have been made to other ISAs (UK).

IAASA publishes its profile for the profession

The Irish Auditing and Accounting Supervisory Authority (IAASA) has published its annual Profile of the Profession which contains statistical data regarding the eight Prescribed Accountancy Bodies ('PABs') within IAASA's supervisory remit in Ireland for the year 2019.

The Profile, which was compiled with the assistance of the PABs, presents an overview of the PABs' memberships, student numbers and profiles, as well as the nature and scale of their regulatory and monitoring activities

Call for new Members to join the ICAS Regulation Board, Regulatory Committees, Discipline Board and Tribunal Panels

By promoting dynamic regulatory policies and ensuring that high standards of conduct and competence are maintained, ICAS builds public confidence in the accountancy profession, protecting the reputations of all CAs.

ICAS would be delighted to hear from both Members and non-Members who would be interested in joining one of the Boards, Regulatory Committees, or Panels involved with the regulatory or disciplinary functions.

We regularly have vacancies arising for the following bodies:

- Authorisation Committee (with oversight of licensing, monitoring and CPD).
- Discipline & Appeal Panels (from which Discipline & Appeal Tribunals are appointed).
- Discipline Board (responsible for regulatory policy, strategy and oversight).
- Investigation Committee (responsible for the investigation and assessment of the complaints).
- Regulation Board (responsible for regulatory policy, strategy and oversight).

Further information can be found at: www.icas.com/governance/boards-and-key-committees/call-for-new-members-to-join-the-icas-regulation-board,-regulatory-committees,-discipline-board-and-tribunal-panels