Audit News – Spring 2021

We have had several 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; or
- The individual has indicated elsewhere (such as on their own annual return) that they do not wish to receive email communications from ICAS; or
- Emails get caught in an anti-spam filter.

Note that the best way to ensure you receive all communications from ICAS is to give permission to 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

2021 Audit Monitoring visits

As a result of the COVID-19 pandemic, and related restrictions, ICAS have suspended all face-to-face monitoring activities until further notice, although we have continued to conduct monitoring activities on a remote basis. We have been contacting all firms due to receive an Audit Monitoring visit in the first half of 2021, 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 2021 face to face courses being cancelled. Please note that in 2020, the Committee approved the following changes to the course, and to mandatory attendance going forward:

- A video recording of the course is available on the ICAS website, which is free for members to access any time they wish and is split into seven modules which can be viewed together or individually. The course material can be accessed (by logging into icas.com) at https://www.icas.com/regulation/regulatory-monitoring/keeping-audit-on-the-right-track

Should members prefer to attend a face-to-face course, we plan to recommence these is late 2021 (subject to government guidance). From 2022 onwards, we will present the 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). In addition, all new RIs or newly active RIs must view all modules of the online course or attend a face-to-face course within 12 months of becoming active**.

- **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**. **Going forward, firms will be required to confirm adherence to the mandatory requirements via the Firm's Annual Return.**

New UK Audit Regulations

The January 2021 Audit Regulations have been drafted to reflect the changes in the relationship between the UK and the EU from 1 January 2021. The amended Regulations focus only on audit work in the UK and the existing Audit Regulations (January 2020) will remain in place solely for the purpose of audit work undertaken by ICAS firms in the Republic of Ireland. The main changes relate to removal of references to the Republic of Ireland from the Regulations, and related statutory references; and amended eligibility provisions for EEA auditors.

It is expected that the final version of the new Regulations will be uploaded to the ICAS website shortly following review and approval. In the meantime, a copy of the draft regulations can be viewed in full at https://www.icas.com/governance/charter/icas-rules-and-regulations. Please do not hesitate to contact regulatoryauthorisations@icas.com if you have any queries over how the new Regulations apply.

> It should be noted that the Irish government and IAASA have not made formal legislative changes in Irish law that would change the basis of audit registration and qualification in Ireland. Accordingly, the joint audit regulations for the UK and Ireland dated January 2020 continue to remain effective after 1 January 2021 until such legislative change is made, or direct instruction made otherwise by the Irish oversight body IAASA.

Remote auditing and emerging issues

As we approach the anniversary of the COVID-19 pandemic and related lockdown, the audit monitoring team are reviewing audit files which have been completed in the new remote working environment. While a number of examples of good practice have been evident on review, there have been instances where the challenges faced by both audit firms and their clients over this period has impacted audit quality.

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. Additional time may be required to complete audits, and it is important that this is taken, in particular where circumstances have changed during the audit process. It is also vital that auditors obtain sufficient and appropriate audit evidence over all matters in support of their opinions, and that where alternative or remote procedures are conducted, that these are sufficient and appropriate in line with the requirements of the ISAs.

Planning stage

As a result of the pandemic, auditors will need to review, and may have to revise, their audit approach and risk assessments, including consideration of:

- The extent to which the audited entity appears to be affected by COVID-19 and its financial and operational resilience.
- The integrity of management, and the quality of the control environment and controls over financial reporting.
- The impact on the audit approach including the extent of focus on substantive procedures and controls testing; the availability of sufficient, appropriate audit evidence; and reporting dates and deadlines.

It is important that, at the planning stage, auditors consider and document any changes to their baseline approach because of remote working. In addition, one must consider how audit evidence is to be obtained by the audit team on a remote basis, as there are likely to have been a number of changes in the client's control environment and procedures due to remote working of staff. Further revisions to the planned approach may also be required during the audit in response to emerging issues.

On several recent files reviewed by the monitoring team, there has been no consideration of the impact of COVID-19 at the risk assessment stage, with the majority of focus on going concern and the auditor's opinion thereon. As a result, there have been instances where the audit approach has not been fully considered at planning, and this has had an impact on work performed and evidence obtained later in the file. Some specific areas for attention are as follows:

<u>Assessment of key systems and controls</u>

As part of this process, auditors will have to consider how business continuity plans were implemented, what evidence exists relating to this implementation, resulting changes to the entity's systems, and the extent to which this may impact the audit.

While many ICAS audit firms take no reliance on controls as part of their audit approach, regardless of whether a controls approach is adopted, the auditor is still required to obtain an understanding of controls relevant to the financial statements. While the auditor in the past may have used information obtained from experience with the entity or from audit procedures performed in previous audits (subject to appropriate confirmation of relevant controls by observation or walkthrough in the current year), because of the pandemic, system and control changes may have occurred which require further consideration.

For audits with year ends post 31 March 2020, any significant change in controls and operations may entail the assessment of controls for at least two periods – the period prior to the impact of COVID-19, and the period affected by it. There may also require to be further periods of assessment (for example, if staff returned onsite during the period; where home working restrictions were re-imposed; etc).

In cases where changes have been implemented, auditors will have to ensure that they fully understand how the business has operated in the period being audited, including consideration of the effectiveness of controls implemented by the client in this period and any impact on the auditor's risk assessment and audit approach.

> The monitoring team has already raised a number of issues where an assessment of key systems and controls has not taken place despite confirmed changes to the systems in question. In these situations, work has been performed by inquiry only, and not supplemented by observation or walkthrough testing as required by the standard.

<u>Materiality</u>

Materiality is fundamental to an audit and is applied in planning and performing audits, as well as evaluating the effect of misstatements on the financial statements. As a result of the pandemic, materiality levels may change significantly from prior periods in response to both changes in assessed risks and changes to underlying benchmarks in the financial statements.

Even where overall materiality does not change significantly, the impact on performance materiality must always be considered and may need to change to reflect such increased risks, for example where there is expected to be a higher level of control breakdowns or errors.

Under ISA (UK) 320, auditors must also consider whether there is a need to set different materiality levels for particular classes of transaction, balances or disclosures based on assessed risks. This will be the case where (in relation to specific balances, transactions, and disclosures) even a small change may influence the decisions of users of the financial statements. For example, if an entity is close to covenant levels, then there may be areas of the financial statements that will be of particular interest to users and therefore subject to a lower level of materiality.

At the end of the planning stage, it is always advisable to perform a ‘stand back test’ and assess the rationale for determining materiality. Performing a sense check should allow the auditor to ask themselves whether the justification documented for the materiality level makes sense and whether, as a result, the audit work is focusing on the significant risks and the areas where there is greater susceptibility to material misstatement. The auditor should review the assessed level of materiality during the audit to ensure it remains appropriate.

<u>Fraud</u>

As a result of the pandemic, client staff may be working remotely and/or following changed or newly implemented procedures. There may also be instances where internal controls may not be operating as designed. Consequently, the auditor must consider whether their assessment of fraud risk needs to be revised and any resulting impact on the audit approach. Risks of material misstatement due to fraud or irregularity may be heightened as a result of:

- The impact on segregation of duties.
- Less effective preventative and detective controls as a result of new working practices.
- Key staff absences.
- Increased pressure to meet financial targets or keep the business operational.
- Eagerness to enter into transactions with reduced checks over counterparties.
- Reduced security over physical assets.
- Improper claims for financial support, such as mistakenly or deliberately claiming furlough payments for employees who are actually working.

Fieldwork stage

While the basic techniques for gathering audit evidence - inspection, observation, confirmation, recalculation, reperformance and analytical procedures - do not necessitate auditors to be physically on-site, auditors do need to consider how to compensate for a lack of physical proximity in some areas.

Indeed, a large part of the value of these techniques lie in the need to engage directly with the entity's management and staff. Such engagement is naturally likely to change when procedures or documents are being observed or inspected remotely, and where inquiries are made, and explanations are provided online.

Auditors may therefore wish to consider:

- Encouraging audit and entity staff to engage using video wherever possible, particularly in the case of more senior staff accustomed to such engagement with clients.

- Developing guidance for situations in which there are barriers to physically verifying and testing source documentation and tangible assets. Part of this will involve considering for each engagement:
  - whether physical verification and testing are possible.
  - the resources required to arrange safe on-site verification of assets.
  - the resources required for the secure transport of physical documentation from the entity to auditors, the maintenance of the security over that documentation wherever auditors are working, and its safe return.
  - the possibility of alternative, remote audit procedures that might be sufficient and appropriate.
  - the need to address the authenticity of entity-prepared copies or scans of records, as well as obtaining evidence that they are complete and accurate.

Documentation is key here in demonstrating that any alternative procedures are appropriate – for example if an auditor is seeking to gather evidence through secure live streaming or screen sharing, then the audit file should include consideration of what factors will allow them to evaluate the appropriateness of that evidence including whether it can be manipulated and if so, how this risk can be mitigated.

Specific issues on recent monitoring reviews:

- <u>Detailed substantive testing</u> - the audit monitoring team are increasingly finding audit tests where the sample has been selected from the accounting software or nominal ledger to provide assurance over **all** financial statement assertions, even where the audit methodology utilises a directional testing approach. This has been a particular issue in relation to income or revenue testing where the audit team is seeking to obtain sufficient appropriate evidence that income is not materially understated (completeness) but are selecting samples from the general ledger rather than primary source.

  The monitoring team have noted other examples where purchase testing samples have been selected from bank statements, resulting in a sample of mainly administrative expenses, and excluding purchase ledger creditors.

  There have been further issues where the auditor has attempted to change or adapt the test based on information or documentation, they have easy access to (or been provided by the client), resulting in a test which does not meet its original objective and hence provides a potential evidence issue.

- <u>Completeness of information</u> - audit teams must ensure that samples continue to be determined by them and that any population is not predetermined. In a recent example, on a file reviewed by the monitoring team, a sample was selected based solely on which invoices the client had collated to assist with the audit.

  There have been similar examples in the approach to journal testing where the auditor has not ascertained the completeness of information provided, or in one case asked the finance team at the client to provide a list of all journals processed over a testing threshold (therefore open to manipulation).

- <u>Substantive analytical review</u> - Due to issues relating to access to source records, and practical difficulties with conducting detailed substantive testing in some cases, a number of audit teams are increasingly seeking to obtain more assurance using substantive analytical review procedures. Substantive analytical procedures are often difficult to perform well and consequently examples reviewed in the current climate have often failed to meet the requirements of ISA (UK) 520. This has led to evidence issues where substantive analytical review has been used to justify a reduction in sample sizes.

The above is most evident in respect of payroll audit where undue reliance on ineffective substantive analytical procedures and a reduction in detailed substantive sample sizes has given rise to potential concerns as to whether sufficient appropriate evidence has been obtained for all relevant assertions (particularly existence).

Completion stage

From our reviews, the most significant impact of remote auditing on the completion stage of the audit is around timing and reporting, including how the auditor has communicated with those charged with governance. Generally, documentation of two-way communication with those charged with governance often requires improvement in particular where meetings are held over video call – quite often records of meetings and supporting emails are omitted from audit files.

It is important that any reporting deadline takes account of the need for comprehensive, complete, and informed communication between those charged with governance and the auditor. This is particularly the case where the auditor intends to modify their opinion and/or where there are significant going concern considerations. In these situations, the auditor should engage as soon as possible to explain the nature of the modification and whether allowing the auditor additional time to undertake their work, could result in sufficient appropriate evidence being obtained.

We have raised further issues in relation to written representations where there has been overreliance on the representations of the management in place of audit evidence. Firms are reminded that while written representations are useful to help confirm positions reported by management, they will never, alone, constitute sufficient appropriate audit evidence.

The FRC announces its thematic reviews and priority sectors for 2021/22

The Financial Reporting Council (FRC) has announced its corporate reporting and audit quality review programme for 2021/22 alongside its priority sectors for review.

Thematic reviews of corporate reporting

The FRC's Corporate Reporting Review team will supplement its routine reviews of corporate reporting with five thematic reviews. Most of these reviews are more relevant to auditors of larger entities, however, have been designed to identify scope for improvement, as well as examples of better practices, in the following areas of key stakeholder interest:

- **Going Concern and Viability**: management's assessments and disclosures in relation to going concern and viability are of particular importance given the severe pressures that many companies are currently operating under.

- **IAS 37 – Provisions, Contingent Liabilities and Contingent Assets**: issues relating to compliance with this standard have featured in the FRC's 'top ten' findings for several years.

- **Climate Risk follow-up – Streamlined Energy and Carbon Reporting**: reporting under the new requirements which apply to accounting periods beginning on or after 1 April 2019.

- **Alternative Performance Measures**: this will be a follow-up to the FRC's 2017 thematic review to assess the extent to which its expectations on use of Alternative Performance Measures have been embedded into reporting practices.

- **Interim Reporting**: interim reports play an important role as a progress report on companies' performance and financial position, which is especially necessary in the current environment given the economic uncertainties resulting from COVID-19. The FRC will review compliance with the requirements of the Disclosure and Transparency Rules and IAS 34 to identify areas of better practices.

Areas of focus for audit quality reviews

As part of its programme of audit quality inspections, the FRC's Audit Quality Review team expects to pay particular attention to the auditor's work in the following four areas:

- **COVID-19 Impact**: to include going concern, impairment of assets, inventory, and group audits.
- **Estimates**: particularly the application of ISA (UK) 540 revised and IAS 37.
- **Fraud**: the FRC will consider how well auditors identify and assess fraud risks.
- **Climate Risk**: this follows the FRC's recently published review of climate reporting, which identified the need for auditors to improve their consideration of climate-related risks when planning and executing their audits.

An article by Anne Adrian, ICAS Head of Sustainability and Reporting, highlighting IAASB guidance on climate change risks in an audit can be found here.

Priority sectors

Priority sectors are those considered by the FRC to be high risk for corporate reporting and audit by virtue of economic or other pressures. In selecting corporate reports and audits for review, the FRC will give priority to the following sectors:

- **Travel, Hospitality and Leisure** (including airlines, travel companies, hotels & restaurants).
- **Retail** (particularly involving discretionary expenditure).
- **Property** (particularly retail and office).
- **Financial Services.**

Note that many sectors are under significant pressure given the impact of the COVID-19 pandemic. While these will be areas of focus, consistent with prior years, corporate reports and audits selected for review will not be limited to entities in these priority sectors.

The 2019 Ethical Standard – a reminder of some of the key changes

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 and Autumn 2020 editions of Audit News, the FRC has made a number of significant changes from the 2016 standard which all audit firms should now be aware of. These include:

Prohibitions and changes in the area of non-audit services provided to audit clients

In relation to unlisted entities and **non**-public interest entities (PIEs), there are some new prohibitions and some changes within the wording of the standard which firms should be aware of.

More detailed articles are included in the above Audit News editions and these should be referred to:

- **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 for the provision of non-audit services to an audit client. This is expected to be an issue for some firms, in particular those involved in R&D claims.

- **Recruitment services** – There is now a prohibition on providing 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 measurement criteria on which the remuneration is calculated for any director or employee of the entity or a significant affiliate of an entity relevant to an engagement.

- **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 therefore should 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. While 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.

- **Public interest entity (PIE)** auditors are now only able to provide non-audit services which are closely linked to the audit itself or required by law or regulation. Rather than providing a prohibited list of non-audit services, the 2019 standard 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). For accounting periods commencing on or after 15 December this approach also applies to Other Entities of Public Interest (OEPIs).

Note that there is now a wider definition of the 'third party' test, specifically relating to objective, reasonable and informed third party to 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.

For **accountancy services** which are not considered 'routine or mechanical' it will be difficult to reduce any threat to an acceptable level, including any services involving:
- 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.

Reporting of ethical breaches to ICAS and the FRC

The revised standard now requires audit firms to report breaches of the Ethical Standard on a biannual basis to either:

- The FRC (for Public Interest Entity (PIE) audit firms); or
- ICAS as Recognised Supervisory Body (for non-PIE audit firms).

Note that for firms with PIE audits, all breaches must be reported to the FRC whether or not the breach relates to a PIE or non-PIE audit. There is also a responsibility for audit firms to report identified ethical breaches to those charged with governance of the audited entity in a timely manner.

ICAS registered firms (that do not audit PIEs) should therefore now make notifications on a biannual basis by email to regulatoryauthorisations@icas.com. It should be noted that an inadvertent breach does not necessarily call into question the firm's ability to give an audit opinion, and further guidance can be found in the standard itself, and in the Summer 2020 edition of audit news.

Long association

Where the auditor of a non-PIE has been in position for ten or more years, careful consideration must be given as to whether it is probable that an objective, reasonable and informed third party would conclude the integrity, objectivity, or independence of the firm or covered persons are compromised.

If that consideration determines that these have not been comprised, and that individual is not rotated after ten years, it is necessary that the:

a) safeguards, such as those noted in paragraph 3.5 of the ES 2019, are applied; <u>AND</u>
b) the reasoning as to why the individual continues to participate in the engagement is documented, and the facts are communicated to those charged with governance of the entity in accordance with paragraphs 1.54 – 1.62 of the ES.

Under the 2016 standard, audit firms could solely rely on application of the safeguard in part b) above i.e., by documenting consideration of the threat and formally communicating these facts with those changed with governance on an annual basis. Under the revised standard, this cannot be applied in isolation, and must be in addition to a safeguard in paragraph 3.5.

Appropriate safeguards under paragraph 3.5 may include:

- appointing a partner who has no previous involvement with the entity as the engagement partner.
- removing ('rotating') the partners and the other senior members of the engagement team after a pre-determined number of years.
- involving an additional partner, who is not and has not recently been a member of the engagement team, to review the work done by the partners and the other senior members of the engagement team and to advise as necessary.
- arranging an engagement quality control review of the engagement in question.

This is a significant change which will impact many audit firms. While larger firms may be able to implement safeguards through RI rotation or internal quality control review, this is likely to be more difficult to achieve for smaller firms. Consequently, smaller firms may need to consider whether an appropriate safeguard can be applied following the guidance in para 3.5 of the Standard. This may necessitate instructing an external quality review on such engagements to ensure that the requirements of the ES are met, which will have a resulting cost impact on the audit.

Compliance with the 2019 Ethical Standard is subject to review as part of the audit monitoring visit process and firms should therefore ensure that they are not only aware of the requirements of the standard but that identified ethical threats and safeguards implemented by the firm are sufficiently documented to demonstrate compliance.

Firms are again advised to review the requirements in the Ethical Standard itself, and refer to previous editions of audit news for further guidance, which can be found at https://www.icas.com/regulation/regulatory-monitoring/audit-news

Reporting Matters of Material Significance to Charity Regulators – Modified Audit Opinions

As highlighted in the summer 2020 edition of Audit News, UK Charity Regulators updated their joint guidance on Matters of Material Significance reportable by auditors and independent examiners in April 2020.

The guidance was updated to provide further examples and clarity on matters to report, particularly with respect to modified opinions. In addition, the COVID-19 situation has been reflected in the guidance with a new section dealing with reporting at times of national emergency.

A full copy of the updated guidance can be found at www.oscr.org.uk/news/matters-of-material-significance-guidance-updated/

The revised guidance reconfirms that unless the legal duty to report is relaxed by Government, which is currently not presently the case, then the auditor or examiner must still report matters of material significance. It goes on to state that where a modified opinion, an emphasis of matter, or a matter identified by the independent examiner is **solely** due to the exceptional circumstances of the national emergency **affecting the conduct of the audit** or the independent examination then this is not considered to be reportable as a matter of material significance to the charity regulator.

The audit monitoring team are now coming across examples where the exemption from reporting has been taken but where the documentation surrounding due consideration by the auditor, as to whether a duty to report has potentially arisen and their conclusion drawn thereon, is not as clear as it should be.

As highlighted above the exemption provided is meant for **<u>exceptional</u>** situations where remedy is **not in the power** of the auditor or examiner, the preparer of the charity's accounts, or the charity regulator. The guidance goes on to provide examples of such exceptional situations as:

- Travel restrictions preventing the auditor or examiner from verifying the existence of physical assets such as stock.
- Access restrictions preventing the auditor or examiner for reviewing accounting records and / or from obtaining the assurances required.
- Limitations of scope are identified due to the control measures imposed to deal with a national emergency.

When considering whether to report, auditors might wish to bear in mind various announcements which were made post issue of the revised guidance:

- The Charity Commission announced in May that, following the release of the updated guidance, they would be conducting an ongoing review of the reporting of matters of material significance by auditors and independent examiners. As part of this review, all independent examination reports or audit opinions signed on or after 1 May 2020 which contain a qualification, modified opinion or other reporting paragraph would be reviewed, to confirm that a report of a matter of material significance had also been promptly filed with the Commission in accordance with the updated guidance.

- Separate guidance for Independent Examiners during the COVID-19 pandemic or in a time of national emergency was issued by the UK Charity Regulators in May 2020. This alludes to exemption from reporting but only in respect of where the matter is wholly to do with the effect of a national emergency on how the examination was carried out.

The UK charity regulators collectively have published extensive guidance on matters of material significance and reporting by auditors and independent examiners to the charity regulator. All auditors and independent examiners of charity accounts (whether or not they are acting in a voluntary capacity) should therefore familiarise themselves with this guidance and ensure sufficient appropriate documentation is retained on file surrounding their decision to report or not.

ICAS Guidance on going concern for charity trustees

The ICAS Charities Panel has produced guidance on going concern for charity trustees covering reporting and accounting, financial management and external scrutiny considerations. The guide is for the trustees of UK charities preparing their accounts in accordance with FRS 102 and the Charities SORP (FRS 102), including charitable companies.

The guide is designed to assist charity trustees to:

- Assess their charity's ability to continue as a going concern and to prepare a trustees' annual report and accounts which properly address the relevant requirements.
- Understand the work of their charity's auditor or independent examiner on going concern.

A copy of the guidance can be found here.

Pensions Research Accountants Group (PRAG) publishes revised guidance on Pension scheme financial statements and going concern

Following the revision of ISA (UK) 570 on going concern and the potential implications of the COVID-19 pandemic on the financial health of pension schemes, PRAG has published updated guidance on pension scheme financial statements and going concern (December 2020).

While the FRC's accounting and financial reporting requirements, and audit requirements around going concern apply to entities generally, the PRAG guidance is tailored to the circumstances of UK pension schemes (other than public service pension schemes) and is therefore a valuable industry resource. The guidance applies to both defined benefit (DB) and defined contribution (DC) schemes.

The revised guidance is available to PRAG members via the member zone of the PRAG website.

IFRS - Transitional provision guidance

The FRC has issued guidance for preparers using IFRS, and their auditors. This includes proposed wording to explain the basis of accounts preparation, where an entity has a financial period which straddles the end of the transition period following the UK's exit from the European Union. This is to ensure consistent understanding and application of requirements in the Companies Act.

The guidance can be viewed here.

FRC consultation to revise UK quality management standards

The FRC proposes to adopt International Standard on Quality Management (UK) 1 ***Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*** and International Standard on Quality Management (UK) 2 ***Engagement Quality Reviews***, and revise International Standard on Auditing (UK) 220 (Revised 2021) ***Quality Control For An Audit Of Financial Statements*****,** to reflect recent revisions to the international standards on auditing issued by the International Auditing and Assurance Standards Board (IAASB).

The FRC has launched a consultation on the proposed revision of the standards for an audit firm's responsibilities to design, implement and operate a system of quality management.

In relation to ISQM1, the proposed changes will introduce a system of quality management consisting of 8 components focused on proactively identifying and responding to risks to audit quality. This new approach requires a firm to customise the design, implementation, and operation of its system of quality management based on the nature and circumstances of the firm.

The 8 components are listed below, some of which have similar headings to the existing ISQC (UK)1:

- Governance and leadership, covering culture, decision-making, organisational structure, and leadership
- The firm's risk assessment process, which includes some mandated quality objectives and responses:
  - establishing quality objectives
  - identifying risks to the achievement of those objectives (quality risks); and
  - implementing responses.
- Relevant ethical requirements
- Acceptance and continuance
- Engagement performance
- Resources
- Information and communication
- Monitoring and remediation

The latter component concerns how the firm will deal with internally and externally identified deficiencies, and *remediation* includes root cause analysis which is an important requirement of the proposed standards.

It is noted that much of what underpins a robust quality management system under the proposed standards may already be in place under the existing requirements of ISQC(UK)1, however, it is likely that further work will be required by all firms to ensure an appropriate system is in place, and evidencing the systems operation including appropriate tailored documentation in support of this, will be required.

Firms should therefore start to take actions to ensure that they will be able to meet the requirements of the new standard by the likely applicable date. This process should not be underestimated and will require appropriate focus and attention.

It is likely that the FRC will not make significant changes to what is proposed in its exposure draft.

When finalised, the standards are proposed to be effective for audits of financial statements for periods beginning on or after 15 December 2022. In relation to ISQM 1, systems of quality management in compliance with the proposed ISQM (UK) 1 are to be designed and implemented by 15 December 2022 and the evaluation of the system within one year of that date. Early adoption of the revised standards is strongly encouraged, and further guidance will be provided on icas.com and in future editions of audit news.

The consultation runs until Friday 19 March, and a link to the consultation and impact assessment can be found here.