



***Audit Monitoring Report
2020/21***

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Introduction



RAMA KRISHNAN
CHAIR, AUDIT REGISTRATION COMMITTEE

As the Chair of the ICAEW Audit Registration Committee (ARC), I am very pleased to introduce the ICAEW Audit Monitoring Report for 2020/21.

ICAEW continues to play a significant role in monitoring the quality of audit work in the UK with responsibility delegated to it by the Financial Reporting Council (FRC) for monitoring all audits of companies which are not categorised as Public Interest Entities (PIEs) carried out by its 2,500 audit registered firms.

The ARC (which has equal numbers of independent lay members and chartered accountant members) plays an important role in supporting improvements in audit quality and has a key role in ensuring that the public interest is protected. I was delighted to become the first lay Chair of the ARC in 2017. This was following the ICAEW Regulatory Board (IRB)'s decision that the ARC Chair should always be a lay member. This was to demonstrate and provide greater assurance to the public about the independence of the judgments made by ARC.

As a committee, we meet 11 times per year (over the past 12 months all of these meetings have been virtual and are likely to continue in this way for the foreseeable future). As part of our work we consider both registration and licensing issues and the findings from audit quality monitoring reports. Our role is to protect the public and users of audit services from poor quality work. We will take action in the first instance to bring about improvements at firms but, if this fails, we have the option to withdraw a firm's audit registration.

The last two years have been marked not only by the continuing discussions and debates about what measures the Government should be implementing to try to improve the reliability of financial statements

and audits, but also by significant challenges facing audit regulators like ICAEW in continuing to monitor the quality of audit work undertaken during the pandemic. I have been impressed, as have my fellow ARC members, at the way the ICAEW Professional Standards Department and, in particular, the Quality Assurance Department (QAD) have risen to meet the challenges of the pandemic over the last 12 months and adapted their ways of working by carrying out remote monitoring reviews instead of the normal onsite visits.

Over the 15-month period ending 31 March 2021, QAD completed reviews at 538 accountancy firms, from the largest accountancy firms to sole practitioner firms. I hope you will agree that this report offers a good insight into the quality of audits being carried out by ICAEW firms on all sizes of companies. Due to review cycles, most of the firms reviewed in 2020/2021 are different to the firms reviewed the previous year, so it is difficult to make year on year comparisons.

Part 1 of the report sets out how audit quality is reviewed and within this is an overview of findings over the last three years.

In 2020/2021, QAD reviewers saw many examples of very robust, challenging audit work, and 76% of all audits were considered to be satisfactory or generally acceptable. While it is not easy to compare firms year on year for the reasons set out above, it is disappointing to note that the remaining 24% of audits still need either 'improvement' or 'significant improvement'. While there has been a slight improvement, this percentage remains too high.

It is clear from the cases referred to the ARC that some audit firms need to become much better at explaining the rationale behind their thinking.

One frequent issue we see is where firms prepare audit files which lack any, or sufficient, evidence to support key judgements made by management in the financial statements. We are also concerned by the continuing examples presented to us where there is a lack of professional scepticism being applied by some firms. Too often we see reports about firms that have relied on the information they have been given without challenging or querying how reliable that information could be.

Another regular issue that comes before ARC is the failure of firms to understand and apply the ethical standards properly, particularly in relation to independence. More often than not such breaches of the ethical standard result in a substantial regulatory penalty. It is essential for the public protection and in the interest of firms, that auditors only act where they are completely independent according to the ethical standards as their independence is the foundation of public trust.

Aside from audit quality, the ARC also continues to see reports from QAD listing technical breaches of the Audit Regulations. Some may seem like small infractions, but they can result in regulatory penalties or restrictions being placed on the types of work that firms can undertake. It is very important that firms contact ICAEW's Regulatory Policy and Practice team about any structural change or changes in voting rights. There are very detailed rules on audit firm structure designed to ensure that ownership and management is such that the firm, and its audit partners, can prioritise audit quality and independence above other commercial considerations. The ARC will continue to enforce those rules robustly in the light of any evidence of breach, as compliance is important to safeguard public interest.

So, what should audit firms do to ensure continuous improvement? In [Part 2 of this report](#), Trevor Smith, the QAD Director with responsibility for audit, shares the most common findings from audit file

reviews during the period up to March 2021 and reports on the root cause analysis work conducted by firms on audits found to need improvement or significant improvement. This is sobering reading; root causes have included a lack of knowledge of relevant auditing and accounting standards, flawed design of audit tests and lack of review by senior members of audit engagement teams. While root cause analysis is still a relatively new concept for all except the largest accountancy firms, it provides the ARC, and the firms themselves, with an important insight into where things are going wrong and where improvements need to be made.

Root cause analysis will become increasingly familiar to all firms as they prepare for the implementation of *International Standard on Quality Management 1 (ISQM1)* in 2022. Even the limited initial feedback from firms shows the importance of training and continuing professional development (CPD), planned, structured and tailored to the needs of those working within audit at the firm. In addition, adequate capacity and manageable workload for audit partners and staff must be a priority for all firms.

The ARC recognises the pressures and difficulties caused by the COVID-19 pandemic and appreciate how well many firms have tried to adapt their ways of working while at the same time trying to carry out robust work. It is pleasing to see good practice identified and I, on behalf of the ARC urge firms to work hard to improve audit quality and practice.

Finally, I should like to pay tribute to the hard work and commitment of my fellow committee members and of the Professional Standards Department staff who are dedicated to improving audit quality. I am also very grateful for the hard work of Trevor Smith and his team in producing this report which I hope you will find an interesting read.

Rama Krishnan
Chair, Audit Registration Committee

Part 1
Review of audit quality





REVIEW OF AUDIT QUALITY

Since 2016, the Financial Reporting Council (FRC) has been the competent authority for audit in the UK and has carried out all audit monitoring work in relation to Public Interest Entities (PIEs).

By virtue of Delegation Agreements, all other audit monitoring work was delegated by the FRC to the recognised supervisory bodies (RSBs) including ICAEW. This includes monitoring of non-PIE audit work at the largest accountancy firms. The results of monitoring reviews by the ICAEW Quality Assurance Department (QAD) of non-PIE audit work at those firms were set out in the [FRC's annual quality review](#) which was published in July 2021. To ensure our audit monitoring results relate to the same time period, it has been decided to realign QAD's monitoring year with the FRC's review. This report therefore contains results for a 15-month period.

Given the significantly larger number of non-PIE audits, this means that the responsibility for monitoring the quality of most audits still lies with the RSBs. The reliability of the ratings given on audit files is checked annually by the FRC Professional Oversight team which has not queried any rating given by QAD in any of the recent oversight reports. The results set out below provide, therefore, a reliable and wider insight into the quality of audit work in the UK which includes reviews at firms as diverse as the Big Four accountancy firms and sole practitioner firms where there may be only one responsible individual.

It is, however, harder to draw conclusions on whether there have been improvements in audit quality from one year to the next in relation to non-PIE audit work. While the FRC reviews the same firms every year - those who carry out most of the PIE audits - the reviews carried out by QAD are on an almost completely different body of firms, as most audit firms are subject to inspection only once every six years.

AUDIT QUALITY IN A PANDEMIC

Auditors' already critical role in underpinning confidence in financial reporting by companies has been heightened by the significant additional risks presented by the COVID-19 pandemic.

Whilst some companies and sectors have weathered the challenges of global lockdowns well, others have been plunged into a more uncertain world than anyone in business will have ever experienced.

In this new world, auditors have had to develop new and innovative ways to do their work remotely, and robustly assess management judgements about what the future holds in an environment of constantly changing laws, regulations and guidance. There has also been a greater focus in the most recent period in management's conclusions regarding whether the financial statements should be drawn up on a going concern basis.

MEASURING AUDIT QUALITY

Each audit file reviewed by QAD has been placed into one of the following categories:

- **Satisfactory:** no concerns about audit quality although QAD may identify some minor improvement points.
- **Generally acceptable:** limited concerns in relatively isolated areas.
- **Improvement required:** more gaps or weaknesses in evidence or more widespread weaknesses in documentation.
- **Significant improvement required:** significant concerns over the adequacy or appropriateness of audit evidence or judgements in one key area or multiple issues across several different areas.

It is important to note that just because an audit has been found to require 'significant improvements', this does not mean in most cases that the audit opinion was invalid or that there was a material misstatement in the underlying financial statements. If a firm has failed to obtain sufficient audit evidence to support key areas, the ARC may require the firm to remediate this by seeking additional evidence. However, there are some cases where the audit opinion may be incorrect and the financial statements could be materially misstated. If so, the ARC may require the firm to notify this to the client and agree an appropriate course of action. Ultimately it will be the client's decision as to what to do; it may decide to make a prior period adjustment in the next year's financial statements, or file amended financial statements.



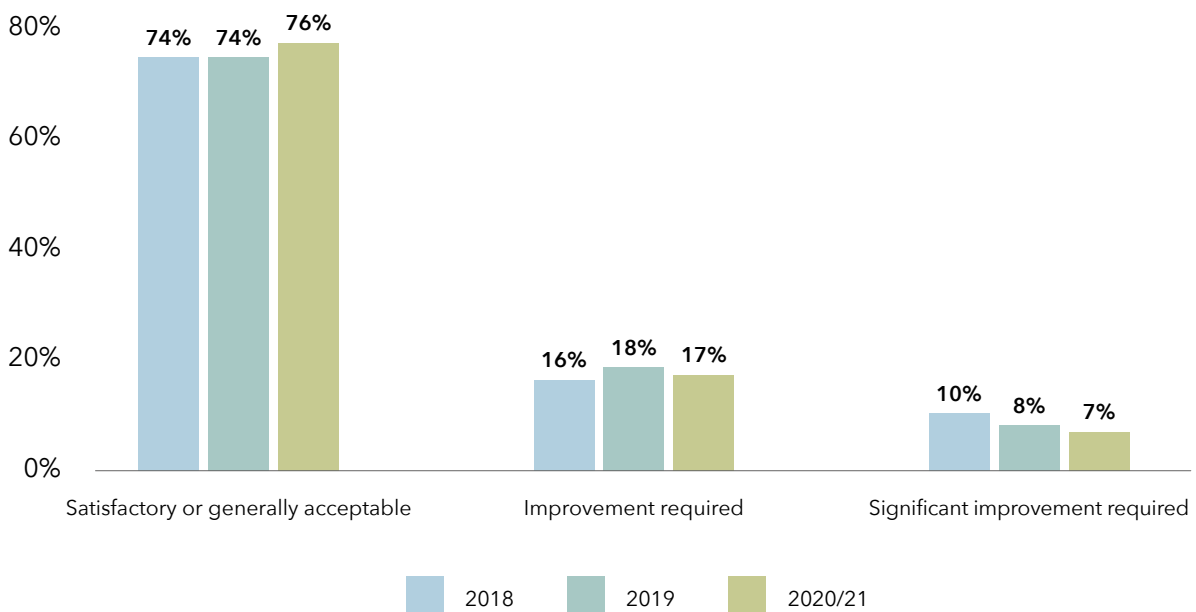
AUDIT FILE REVIEW RESULTS

The chart below shows the results of all audit file reviews carried out by QAD for the 15 month period ending 31 March 2021 compared to calendar years 2019 and 2018.

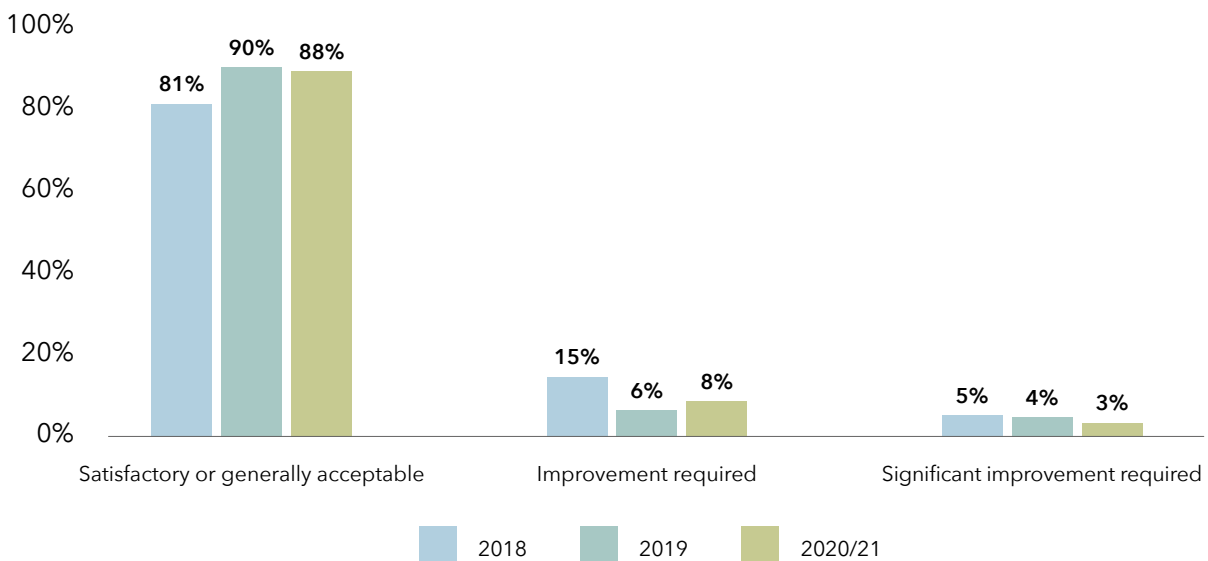
However, there is an indication of some progress on audit quality compared to prior periods, in particular, the continuation of a trend which has seen fewer audit files requiring significant improvements.

Results for 2020/21 show that 76% of the audits were either satisfactory or generally acceptable while 24% required improvement or significant improvement.

COMPARISON OF 2020/21 MONITORING RESULTS TO 2019 AND 2018 - ALL FIRMS



2020/21 MONITORING RESULTS - LARGEST AUDIT FIRMS



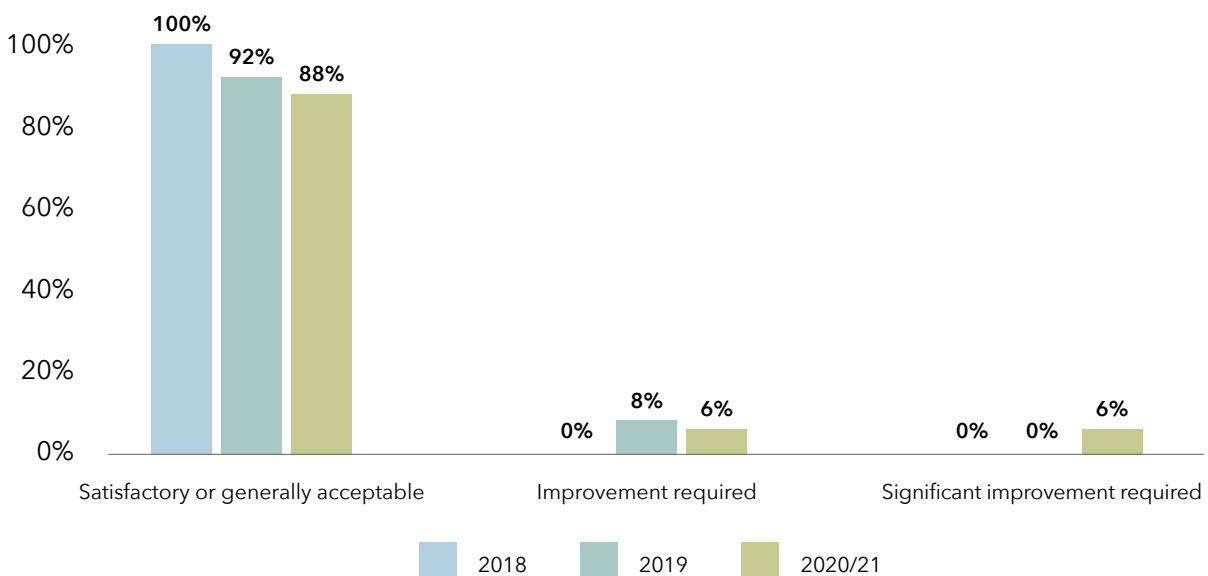
The seven largest audit firms are subject to an annual review of their PIE work by the FRC and also to non-PIE audit file reviews by QAD every one or two years. The next chart shows the aggregate results of QAD’s review of non-PIE statutory audits at these largest firms over the past three years showing that 88% of audits were judged to be either ‘satisfactory’ or ‘generally acceptable’ in 2020/21.

The results of QAD’s recent assessments of non-PIE audits at individual large firms can be seen in the FRC’s July 2021 [Audit Quality Inspection Reports](#).

The third chart shows the results of QAD’s reviews of local public audit files at firms registered with ICAEW to carry out local public audit work. 88% of the local public audit files were considered to be either ‘satisfactory’ or ‘generally acceptable’ in 2020/21.

The results of QAD’s recent assessments of local audits were published in the FRC’s [2021 Audit Quality Inspection Report on Major Local Audits](#) in October 2021.

2020/21 MONITORING RESULTS - LOCAL AUDIT





WHAT HAPPENS AFTER THE VISIT?

Overall conclusions are drawn at a firm-wide level for each monitoring visit. Conclusions on each firm incorporate not just QAD's assessment of overall audit quality (taking into account all file reviews carried out at the firm) but also an assessment of the adequacy of the firm's policies and procedures, its evaluation of the firm's root cause analysis for more significant findings and its commitment and ability to address the findings. These assessments can result in very different visit outcomes.

VISITS CLOSED WITHOUT FOLLOW-UP ACTION



As part of the visit process, firms must provide a written response to the matters raised, including details of actions planned and taken. If QAD is satisfied with the firm's response and considers that the firm has both the commitment and ability to make any improvements needed, the visit will close without any further action. The final assessment will take into account a range of factors, including the scale of improvement required and previous visit history.

SOME FOLLOW-UP ACTION NEEDED



Where some follow-up action was needed, firms are asked to provide further information. This ranges from providing further details of planned actions, to submitting the results of external cold file reviews, details of training courses or improved audit programmes. Submission of this information will usually give QAD the reassurance required that the firm is addressing the matters raised. If not, additional evidence of improvement may be required or QAD may decide to bring forward its next visit.

WHERE AUDITS REQUIRE IMPROVEMENT



This will attract strong follow-up action unless firms can demonstrate that these are isolated examples and that they have taken appropriate steps to understand root causes and prevent recurrence. If, for example, four audits are found to be 'generally acceptable' with only one needing improvement, QAD may conclude that the firm is able to address any issues. However, QAD still needs to be satisfied that the firm has explored the root causes of the audit needing improvement and that it has developed an appropriate action plan. If QAD is not convinced about the firm's response, they will put in place some follow-up actions to enable the firm's progress to be monitored and the completion of these actions will then be monitored by the Regulatory Practice and Policy team.

WHERE AUDITS REQUIRE SIGNIFICANT IMPROVEMENT



If the quality assurance reviewer considers that the quality issues are more widespread, or serious in nature, the firm will be reported to the ARC and some form of regulatory or disciplinary action is likely to follow. The ARC has a range of options at its disposal.

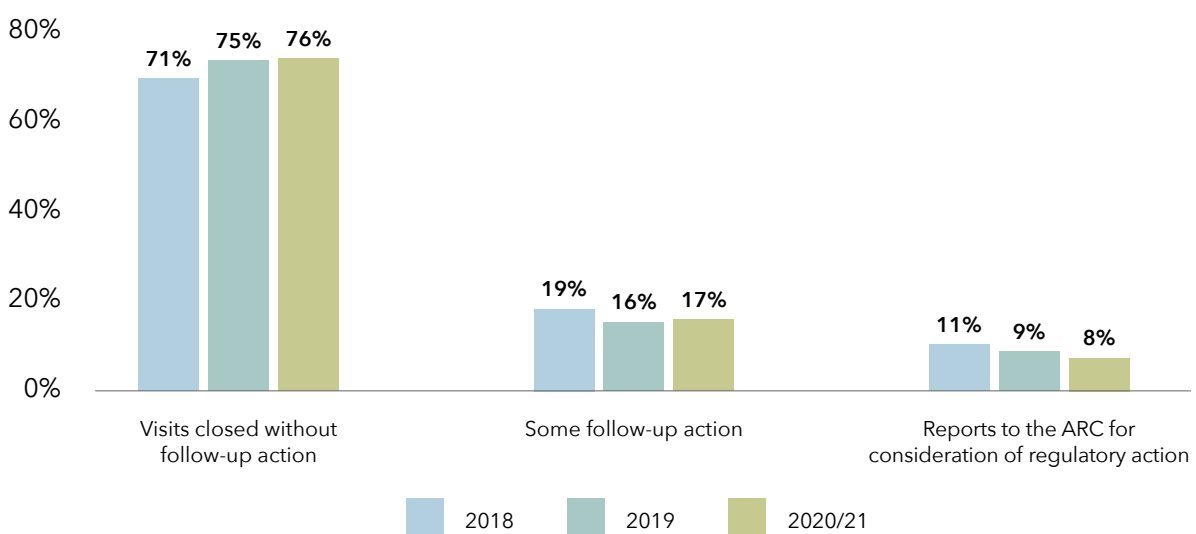
It can:

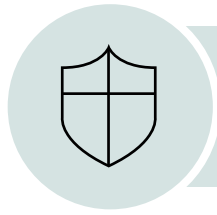
- impose conditions; - typically these would include external hot or cold file reviews with submission of the results in order to monitor firms' progress;
- impose restrictions, for example restricting a firm from taking on any new audits without ARC approval;
- offer a regulatory penalty or refer a firm to the ICAEW Professional Conduct team for further investigation; or
- withdraw audit registration (in the most serious cases).

The ARC will usually seek to provide an opportunity to a failing firm to show that it can improve by imposing conditions, requiring checks to be made on future audits, while protecting its clients and the wider public. If sufficient improvements are not seen, the ARC may move to withdraw a firm's registration.

The chart below shows that the majority of 2020/21 visits were concluded without any further regulatory action. There appears to be a reduction in the most serious visit outcomes which ties in with a similar reduction in the number of audits that require significant improvement.

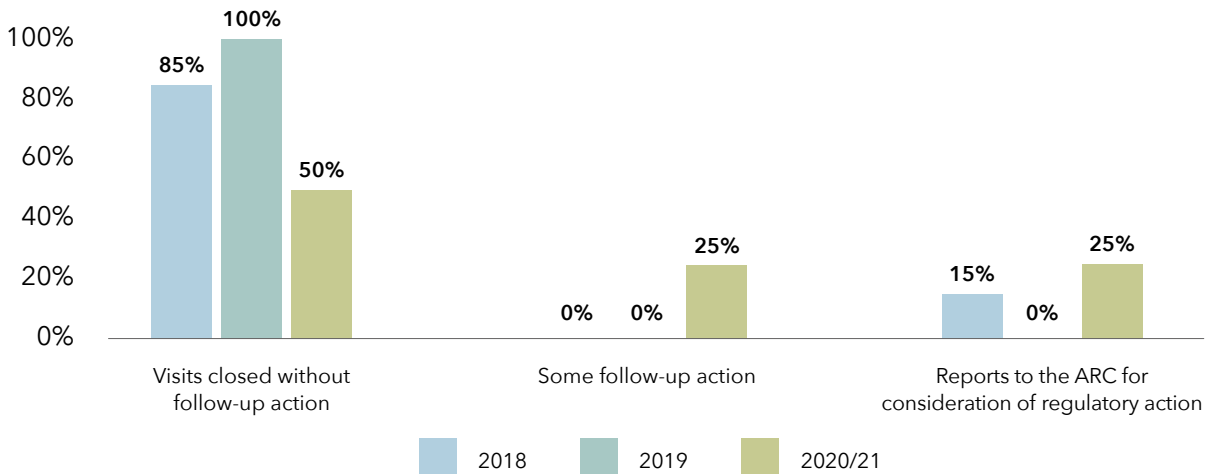
2020/21 VISITS - VISIT OUTCOMES





CROWN DEPENDENCY VISIT RESULTS

VISIT OUTCOMES - CROWN DEPENDENCY VISIT RESULTS

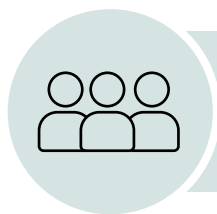


Four visits in 2020/21 (seven visits in each of 2018 and 2019). Two firms had no audits (three firms in each of 2018 and 2019). All audit files were considered to be either ‘satisfactory’ or ‘generally acceptable’ in 2020/21.

In the case requiring follow-up action, the firm’s audit work was of a good standard. The firm had

appropriate audit policies and procedures in place, except it had not carried out any cold file reviews of its Crown Dependency audit.

In the case that required a report to ARC, the audit work was of an acceptable standard but there was a technical breach of the Crown Dependency audit rules in relation to the signing of the audit report.



WORKING WITH OTHER REGULATORS

QAD’s senior managers liaise regularly with the FRC’s Audit Quality Review team, especially regarding the monitoring of larger firms and other firms with PIE audits. The results of these monitoring reviews are included in the FRC’s public reports and findings, and are reflected in QAD’s risk assessment of those PIE audit firms. QAD also works closely with other recognised supervisory bodies such as Chartered Accountants Ireland and the Institute of Chartered Accountants of Scotland to share experiences and discuss topical issues and common challenges. It is also a founding member of the audit Quality Assurance Network of major European professional accountancy bodies involved in audit quality monitoring.

During 2020/21, QAD has continued to engage with the Charity Commission (the Commission) in its own monitoring of compliance of charity accounts and audit reporting. The Commission has concerns over the completeness of matters of material significance by auditors, and this includes modified or qualified audit reports. In Autumn 2021, QAD participated in a round table to support the Commission in its objectives in this area.

In addition to the audit monitoring activities set out in this report, QAD also undertakes audit monitoring under contract for a range of organisations, including Monitor on NHS Foundation Trusts, Audit Wales, Northern Ireland Audit Office and a number of overseas bodies.

Part 2
Key findings from
monitoring visits



Introduction



TREVOR SMITH, QAD DIRECTOR

In this part of the report, we explain some of the key areas for improvement identified from our reviews and the root causes of why we consider that audits are not reaching an acceptable level of audit quality. Firms should use this content to challenge themselves about whether the same factors may present a risk to audit quality on some of their audits. We also share some of the actions planned by firms presented with these situations, and some good practice guidance.

Finally we highlight the work that all audit firms will need to complete over the coming year to implement ISA 315 *Identifying and Assessing the Risks of Material Misstatement* for periods commencing on or after 15 December 2021, and the *International Standard on Quality Management 1 (ISQM1)* by 15 December 2022.



COMMON ISSUES

The most common weaknesses from our audit file reviews remain unchanged:

- audit evidence
- audit documentation
- identification and assessment of risk

In a sense, this is to be expected, as these three areas are central to every audit engagement. The examples we highlighted in our [2020 Audit Monitoring Report](#) remain very relevant for all firms, and the underlying issues behind many audits that require 'improvement' or 'significant improvement' are related to professional scepticism and challenge

of management. Audit documentation that 'tells the story' of audit work in complex areas, demonstrating the application of scepticism and nature of challenges made by the auditor will always be more successful than over-reliance on tick-boxes and checklists.

In order to address these common weaknesses on audits, firms need to understand why the weaknesses occur. In this report, we examine the information shared with us by firms on the root causes of issues we identified during file reviews. The aim is to enable all firms to consider whether these circumstances could occur in their own audit practice and present a risk to audit quality.



ROOT CAUSE ANALYSIS

Root cause analysis (RCA) is a process for identifying the causes of problems or events to prevent them from recurring. Dealing with the symptom alone may address the immediate issue (eg, the review finding itself), but identifying and addressing the underlying or root cause is likely to be a far more effective way to reduce future recurrence, and hence bring about lasting improvements. In simple terms, RCA involves asking a series of 'why' questions to drill down to identify the real root cause of any issue.

RCA will be a component of all firms' implementation of the new Quality Management Standards and, in particular, ISQM1. RCA is not a radical new approach, but rather a formalisation of what many firms may have regarded as best practice in the past. There is no one prescribed format or checklist. For example, for a sole practitioner with one or two staff, RCA may be a simple process with a small number of targeted 'why' questions identifying root causes directly linked to the review findings. Larger firms with several active Responsible Individuals (RIs) and a larger pool of staff may require a more sophisticated approach.

Since early 2020, we have asked firms to build in an element of RCA into their responses to our visit findings. At large firms with complex audit procedures and large audit teams, RCA may require significant investment of time and resources as the firm investigates several different threads across multiple systems and personnel to arrive at the root cause. However, for the smallest audit firms the root cause may be fairly obvious from the start, and our reviewers often have the chance to discuss possible root causes as part of our work onsite at the firm.

Whatever the size of firm, it may not always come up with the right (or at least complete) answer to its RCA every time. As RCA becomes part of the ongoing system of quality management for all firms from December 2022, it will become an ongoing and iterative process that supports continuous improvement in audit quality.

COMMON RCA FINDINGS

We have reviewed a sample of RCA carried out by firms. The analysis focuses on audits that required improvement or significant improvement in 2020 in:

- risk assessments at the planning stage of the audit;
- the extent of audit evidence obtained; the level of documentation; and
- the degree of disclosure within the financial statements.

Firms cited similar root causes for these failings, the most common being a lack of knowledge (either of what was required by the International Standards on Auditing (ISAs) or by accounting standards), flaws in the design of audit tests and inadequate review by the manager and/or audit partner. Firms acknowledge that client familiarity tends to lead to poorer documentation.

Of some concern was the number of disclosure errors caused by a lack of knowledge of FRS 102, or by failing to use disclosure checklists regularly.

Training and continuing professional development (CPD) is the foundation of good audit work. ICAEW audit firms have a responsibility under the Audit Regulations to train and develop their staff, applying ICAEW professional development guidelines including the 'reflect', 'act', 'impact' approach. Audit partners should also plan their CPD activities in line with International Education Standard 8.



RCA CASE STUDIES

1. Lack of knowledge by audit engagement team

During our review of a group audit carried out by a firm with three audit partners, we identified significant weaknesses in the application of ISA 600, with no overall group audit planning or strategy. The audit file included various client schedules with financial information relating to the non-UK components that had been reviewed by the audit team, but with no clear audit testing undertaken.

The firm's assessment of the root cause of these failings was twofold; training courses in recent years had not included enough content on group auditing requirements to ensure that the team had sufficient competence in that area and there had been a misunderstanding about the scope of work conducted on subsidiaries by an overseas accountancy firm. Although the latter firm prepared very detailed accounts for local tax purposes, it did not conduct a statutory audit in accordance with ISAs.

The firm responded by booking the audit team onto a tailored training course on group auditing requirements, started a discussion with its client about the scope of audit work to be performed on subsidiaries by non-UK accountancy firms, and undertook to arrange a hot file review of the next audit to ensure that all weaknesses were fully addressed.

2. Flawed design of audit tests

Our review of work in progress (WIP) in an audit by a firm with one audit partner identified that there had been detailed discussions with the client's quantity surveyor about amounts recognised as WIP. However, the level of detail on the file regarding the audit team's challenge of the stage of completion of contracts, and expected costs and margins, did not show enough audit evidence to conclude on the balance in the statutory accounts.

The firm acknowledged that, although it had identified appropriate risks to address for the WIP balance and had completed some more detailed work on costs and margins, the work was not documented in a coherent way. The firm committed to carrying out additional work at the next audit to review the outcome of previous completed projects to assess the accuracy of management estimations.

3. Inadequate review

During a review of an audit completed by another firm with one audit partner, we identified that the audit test for completeness of revenue was to check a sample of transactions from the sales ledger system. While this will give evidence of existence of revenue, it will not give audit assurance over completeness.

The firm explained that this was an error that could be traced to the planning stage of the audit which had been conducted without sufficient audit partner involvement. The audit partner had not conducted a detailed review of the audit work done and acknowledged over-reliance on the audit staff. In the future, the firm has committed to the audit partner performing a more detailed review of every audit file.

4. Knowledge of accounting standards

At an audit firm with two audit partners, we identified significant gaps in financial statement disclosures for an audit client that had made a material acquisition during the year. There were none of the required disclosures for business combinations and no related party transaction disclosures despite the existence of material related party transactions.

The firm's RCA identified that there was no disclosure checklist used by the audit team during that year's audit. The firm's policy was to use the checklist once every three years on the assumption that little may change on an individual client. While this was not an unreasonable general policy, such a policy had not been effective in this case where significant changes to the client during the year meant that a disclosure checklist was particularly important.

The firm has now changed its policy so that all audit teams will now consider whether changes at the client require use of a disclosure checklist every year, and it will be completed annually for all large clients as a mandatory requirement.

QAD considered that another root cause was the adequacy of manager and partner review, as disclosure checklists are not infallible, especially when completed by less experienced staff. The firm recognised this aspect as well and, for large and complex audit clients, the firm decided that a second audit manager will complete a disclosure checklist independently from the manager of that audit.

ROOT CAUSE ANALYSIS CONCLUSIONS

The RCA completed by a firm will be tailored to that firm's circumstances, and other firms investigating similar weaknesses to those set out above may identify very different root causes of the issues and may decide on alternative action to resolve the underlying matters.

Having completed the RCA and set out the planned actions, the important next steps for these firms are to monitor both the implementation of those actions and whether they are effective. If the original issues recur, then the firms will need to perform another RCA to see whether they had identified the whole of the root cause of the original issue, or whether there is something else that eluded them the first time.

Some key points for all firms from the sample of RCA findings we reviewed are:

- Risk assess your audit portfolio – do you and your staff have the necessary training and knowledge to deal with more complex audits, including group audit situations and contract accounting?
- Ensure sufficient resources for effective manager and partner review – the manager and partner should bring a depth of experience and eye for detail to identify errors and mistakes that even the most experienced staff will make from time to time. It is much easier to identify issues if you have not been involved in the detail of the work performed.
- Review procedures and 'things that you do' to assess whether they are effective in addressing potential quality risks. It may not be necessary to complete an accounts disclosure checklist annually, but you certainly need to do so when transactions or developments at your client result in new disclosure requirements.

GOOD PRACTICE

Increasingly, we are able to highlight and share good practice examples with the audit firms that we review. Examples of good practice on particular audits can be used by the firm as a case study or example of how to approach or document a particular area of the audit for others in similar circumstances. However, it is always important to be clear that good practice examples are not necessarily templates to be used on other audits, and to focus on the underlying concepts of 'what good looks like'.

In our role reviewing audit files, many good practice points are identified through the quality of the audit documentation. Work that represents good practice typically tells the story of an aspect of the audit, with the auditor explaining, for example;

- the identified audit risks;
- how and why they approached the audit issue as they did;
- what they discussed with management;
- what alternative circumstances they challenged management with;
- the evidence that they identified and evaluated to support or contradict the position; and
- their reasoning behind the final conclusion.

This kind of best practice documentation seldom fits into a standard audit checklist and requires some separate record on the audit file. If it is done well, the audit partner and manager, and any later external audit file reviewer, will have no need to ask questions about the work completed, assessment of evidence or challenge of management.

In 2020/21 QAD contributed to ICAEW's 'What Good Looks Like' initiative, the first session was focused on the **audit of going concern**. This brings many of these good practice points to life in detailed audit scenarios and example documentation.



INTERNATIONAL STANDARDS ON QUALITY MANAGEMENT

On 9 July 2021, the FRC issued a revised suite of UK quality management standards for an audit firm's responsibilities to design, implement and operate a system of quality management:

- 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*.
- International Standard on *Quality Management (UK) 2 Engagement Quality Reviews*.
- International Standard on *Auditing (UK) 220 (Revised July 2021) Quality Control For An Audit Of Financial Statements*.

The standards are effective for audits of financial statements for periods beginning on or after 15 December 2022. Early adoption of the revised standards is strongly encouraged.

Transition from ISQC1 to ISQM1 is a move away from a set of quality control procedures implemented by audit firms to a system of quality management that enables the firm to manage audit quality proactively. The standards are scalable to the size and complexity of the firm and its audit portfolio, with considerably more preparation work required by the largest audit firms.

All firms from sole practitioners upwards will need to invest some time and resources to complete a tailored risk assessment for their firm, and link quality risks to the appropriate responses. Responses will include many of the quality control procedures already in place at firms, but there may need to be extensions and improvements to the procedures in some cases.

Many firms will already be speaking to their methodology providers, who will be able to provide some guidance and frameworks to assist implementation by firms, but there will be no off-the-shelf template for the quality management system. During 2022, we will be speaking to firms about their preparation for the quality management standards on our visits and highlighting any key areas where firms need to do more preparation.

We strongly recommend that all firms familiarise themselves with the standards. There is excellent guidance available direct from standard-setters at the International Audit and Accounting Standards Board at iaasb.org/focus-areas/quality-management, including a four-part webinar series taking a deep dive into ISQM1.





ICAEW AUDIT RESOURCES

WEBINARS AND WEBCASTS

For more information on the findings from our audit monitoring reviews, together with tips for avoiding pitfalls, see our insights from audit monitoring webcasts available at [icaew.com/auditguidance](https://www.icaew.com/auditguidance)

- Ethical standards
- Group audits
- Audit compliance review
- Accounting estimates, valuations, impairment and the use of experts
- Audit work on internal controls
- FRS102 implementation
- Internal controls
- Fraud
- Substantive testing – substantive analytical review and tests of detail

These short webcasts were developed and presented by our reviewers who have first-hand experience of visiting firms of all sizes.

AUDIT NEWS

Audit News is your regulatory update containing the latest audit and assurance technical guidance and best practice advice. We email audit compliance principals and responsible individuals when a new issue of *Audit News* is available. *Audit News* is also available to all ICAEW members – please select the Audit and Assurance topic from your list of preferences and we will notify you by email when a new issue is available.

The current and past issues of *Audit News* are also available at [icaew.com/auditnews](https://www.icaew.com/auditnews)

UK GAAP

Access a wealth of information including free content at [icaew.com/ukgaap](https://www.icaew.com/ukgaap)

ICAEW FILMS

ICAEW's corporate training films provide an impactful and interactive way for audit firms to develop the whole audit team. The films explore numerous themes including the challenges audit teams face on a daily basis and the underestimated importance of professional scepticism.

Find out more at [icaew.com/films](https://www.icaew.com/films)

TECHNICAL AND ETHICS ADVISORY SERVICES

Our Technical Advisory Service provides advice on a wide range of subjects, including accounting, anti-money laundering, ethics, company law, charities and auditing, but not taxation, which is dealt with through the ICAEW Tax and VAT helpline provided by Abbey Tax or TAXconnect.

Whatever your technical or ethical query, contact us via webchat for objective, confidential advice.

Visit [icaew.com/helplines](https://www.icaew.com/helplines) for information on how to contact us.

HELPSHEETS

In addition to advice provided through the helplines, common topics are addressed in a series of helpsheets written by our technical advisers.

Visit [icaew.com/helpsheets](https://www.icaew.com/helpsheets) to access these resources.

'WHAT GOOD LOOKS LIKE' GUIDANCE: GOING CONCERN

ICAEW's Technical Advisory Service in conjunction with ICAEW's Quality Assurance Department has published new going concern guidance. The objective of the guidance is to help firms better understand how to conduct and document their audits in a way that stands up to scrutiny. This includes considering how to interpret the requirements of ISAs (UK), to make well balanced judgements and apply professional scepticism.

[Access the guidance](#)

FINANCIAL REPORTING FACULTY

The Financial Reporting Faculty (FRF) provides highly accessible and practical assistance on financial reporting issues to keep you informed. Members of the FRF have full access to practical online guidance, career advancing webinars and events, exclusive use of our online factsheets, monthly ebulletins, the benefit of our bespoke accounting standards pages and bi-annual journal, *By All Accounts*. Faculty members also receive unlimited access to the International Accounting Standards Board (IASB)'s eIFRS service.

You can download the FRF app or follow us on Twitter [@ICAEW_FRF](#).

AUDIT AND ASSURANCE FACULTY

The Audit and Assurance Faculty is the professional and public interest voice of audit and assurance matters for ICAEW and a leading authority in its field. Internationally recognised as a source of expertise, the faculty influences regulation and standard setting and provides a range of resources to professionals. It also offers practical assistance in dealing with common audit and assurance problems. Subscribers benefit from a monthly bulletin summarising faculty resources, access the faculty's extensive webinar programme and receive 10 editions of the faculty's magazine, *Audit & Beyond*. Subscribers are also invited to exclusive faculty conferences and events.

Join now at [icaew.com/joinAAF](https://www.icaew.com/joinAAF)





INDEPENDENT GOVERNANCE

ABOUT THE AUDIT REGISTRATION COMMITTEE (ARC)

The ARC is responsible for undertaking ICAEW's responsibilities as a recognised supervisory body under the Companies Act 2006. The committee consists of at least eight members, half of who must be lay members (non-accountants). This structure is key to ensuring a balance between technical knowledge and protecting the interests of the public. The ARC's main work involves reviewing Quality Assurance reports from monitoring reviews, the firms' responses to the reports and deciding if any regulatory action is needed. The committee also deals with new registered auditor applications and considers complaints against firms in the regulated area of audit.

The ARC is one of the independent regulatory and disciplinary committees that oversees the ICAEW Professional Standards Department's monitoring activity, reviews firm applications to carry out work regulated by law (eg, audit and probate) and hears disciplinary cases.

The effectiveness of these committees is reviewed by the ICAEW Regulatory Board, an independent board which is responsible for ensuring that ICAEW's regulatory and disciplinary work is carried out in the public interest. These regulatory and disciplinary committees are not answerable to the IRB for their decisions in individual cases.

FURTHER INFORMATION

[The ARC: maintaining balance in a complex business](#)

[ICAEW Regulatory Committees](#)

ABOUT THE ICAEW REGULATORY BOARD (IRB)

The role of the board is to initiate and develop strategic priorities for the regulatory and disciplinary work that is carried out by ICAEW's Professional Standards Department. Examples of this work include keeping changes to regulations and bye-laws under review and setting regulatory fees. It is not involved with the discipline of ICAEW members, firms or those authorised by ICAEW to undertake regulated activities.

The IRB's primary objective is to act in the public interest, not the interest of ICAEW members or firms. This objective is clearly set out in its Terms of Reference. Meetings of the IRB are attended annually by a range of external oversight bodies including the FRC. ICAEW's governance arrangements, and the separation of ICAEW's regulatory functions from its representative functions, are also inspected every year by the FRC.

The IRB has 12 members including the chair and is formed of an equal number of lay members (someone who is not and never has been a member, affiliate or employee of ICAEW or any other accountancy body) and non-lay members (ICAEW Chartered Accountants). The IRB chair for the period of this report was a lay member, Michael Caplan QC.

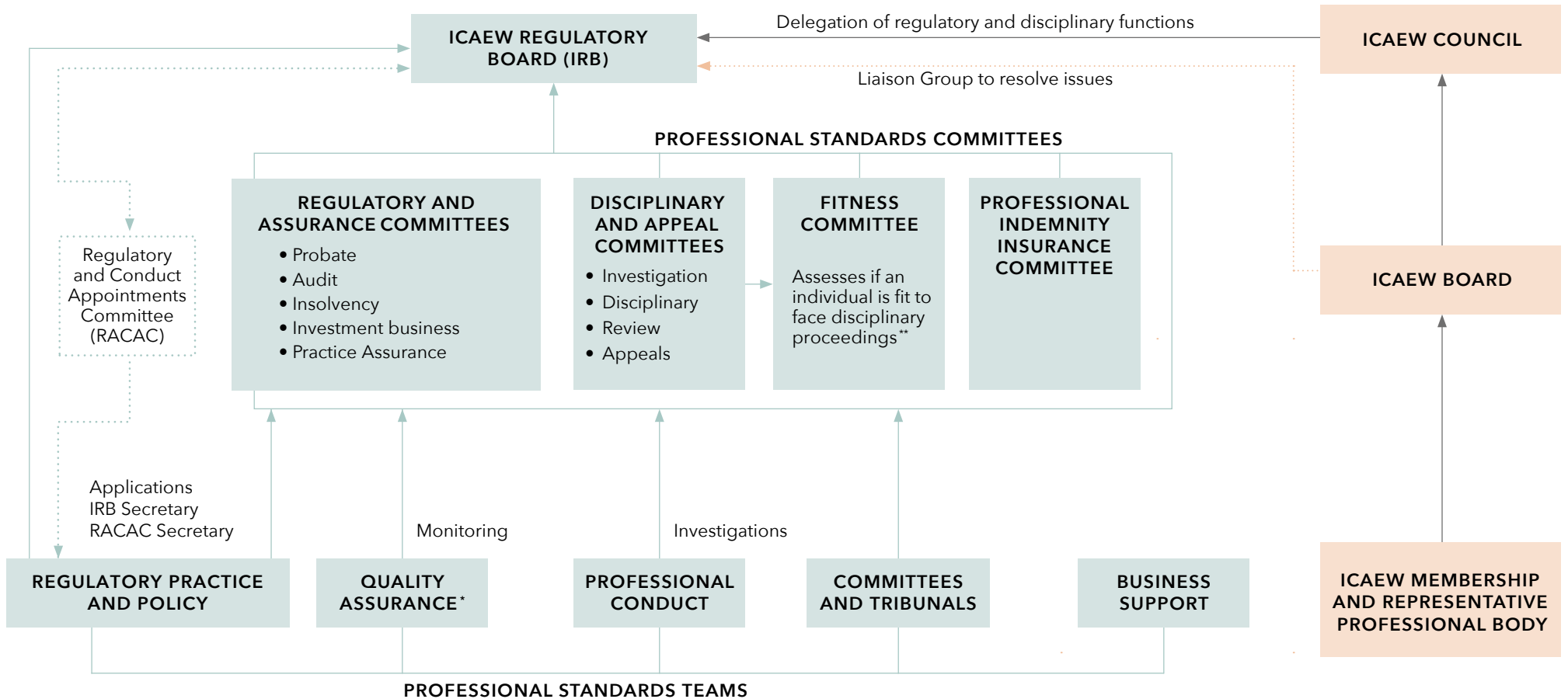
The chair and IRB members are all appointed using an independent selection process.

FURTHER INFORMATION

[ICAEW Regulatory Board](#)

[ICAEW as an improvement regulator](#)

PSD governance structure



*Including AML supervisory responsibilities

**Also considers readmission applications and whether applications that disclose potential fitness issues should be approved.

Our role as a world-leading improvement regulator

We protect the public interest by making sure ICAEW's firms, members, students and affiliates maintain the highest standards of professional competency and conduct.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the independent ICAEW Regulatory Board (IRB).

Our role is to:

- authorise ICAEW firms, members and affiliates to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- support the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- provide robust anti-money laundering supervision and monitoring;
- monitor ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- investigate complaints and hold ICAEW firms and members to account where they fall short of standards;
- respond and comment on proposed changes to the law and regulation; and
- educate through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students in the world, and more than 187,800 of them are members and students of ICAEW. All of the top 100 global brands employ chartered accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

We are proud to be a founding member of Chartered Accountants Worldwide, a network of 750,000 members across 190 countries which promotes the expertise and skills of chartered accountants around the world.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

www.charteredaccountantsworldwide.com
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* Source: CAW, 2020 - Interbrand, Best Global Brands 2019