

AUDIT &
ASSURANCE
FACULTY
PUBLICATION

[ICAEW.COM/AAF](https://www.icaew.com/AAF)

ISSUE 254
DECEMBER 2020/
JANUARY 2021



Audit & Beyond

ON THE HORIZON

THE HOT TOPICS AND
NEW DEVELOPMENTS
IN AUDIT FOR 2021

IN ESTIMATION

THE REVISED ISA 540
AND WHAT IT MEANS
FOR AUDITORS

HOME TO STAY

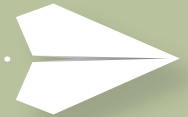
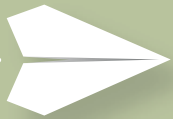
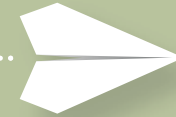
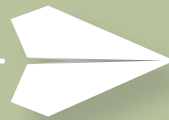
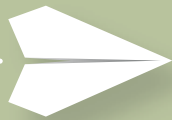
BEST PRACTICE
FOR CONTINUED
HOMEWORKING

DIG DEEP, AIM HIGH

Getting more from
root cause analysis



Membership
price frozen
for 2021



Stay ahead of the curve with the Audit and Assurance Faculty

As an Audit and Assurance Faculty member you have access to the following member resources:

- Exclusive faculty member-only web pages providing practical information;
- Our magazine, *Audit & Beyond*, published ten times a year, covering topical and technical issues to keep you up to date with the latest developments in audit and assurance;
- Monthly webinars, available both live and on demand, offering clear practical guidance;
- Invitations to faculty member-only events, such as our recent exclusive Q&A session with Sir Donald Brydon, that keep you informed on the future of audit policy;
- Our technical releases, which provide good practice guidance on a range of audit and assurance issues;
- Our monthly eBulletin, updating you on the latest news, magazine articles and other technical resources;
- Access to our annual faculty conference which keeps you informed of the latest policy, practical and technical developments in audit and assurance; and
- Opportunities to network through our LinkedIn group and our committees.

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Onwards and upwards



We had always anticipated that 2020 would be a busy year, what with audit reform and Brexit on the cards, plus new auditing standards to prepare for. Dire warnings of potential pandemics have rumbled around for years, but no one could have quite predicted the timing, nature of, or the effect that COVID-19 would have on the economy and everyday life.

Life has changed. Audits have also changed. As we plan our virtual, festive social gatherings at work, many of us will be wishing for some of the 'old' normal back. Some changes will no doubt be temporary, but we can expect some to remain with us for much longer.

What might 2021 have to offer? This edition of *Audit & Beyond* looks at forthcoming changes as well as including reminders and tips to help auditors through what is likely to be a very busy reporting season.

Audit clinic (page 20) provides a helpful reminder of auditing changes to be aware of for December 2020 year ends, including how accounting estimates are audited. *More, more, more* (page 12 onwards) has practical tips on how to apply the documentation requirements in ISA 540 (Revised).

Horizon scanning (page 6) highlights forthcoming developments in audit and assurance, including the expectation that there will be further movement on audit reform and changes to auditing standards.

What's new? (page 18) recounts experiences of extended audit reports and to what extent they deliver more insightful and relevant audit reports - the topic of our recent PD Leake lecture.

Julia Penny takes a look at the value of root cause analysis in helping to improve audit quality, outlining what's involved and how to get the most from it, including a reminder of a practical faculty tool that can assist with this (from page 8). New resources from the faculty to assist members with other aspects of audit are highlighted in *In the know* (page 11).

Auditors have had to significantly adapt their practices this year, and this is reflected in *Soft skill shuffle* (page 16), which offers practical tips on communicating digitally, and how to manage and work with remote teams. While the new year will undoubtedly bring fresh challenges, the skills learned this year should hold auditors in good stead for 2021.

On the behalf of the faculty, I'd like to take this opportunity to send you our seasonal greetings and very best wishes for a happy and healthy 2021.

Louise Sharp

Louise Sharp

Technical Manager, Audit and Assurance

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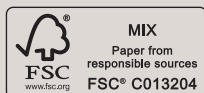
Audit & Beyond is produced by Sunday 207 Union Street London SE1 0LN

Advertising enquiries to commercial.partnerships@icaew.com

ISSN 1748-5789
METCAH20217

Printed in the UK by Geoff Neal Group

Repro by F1 Colour



NEWS & EVENTS



EXCEPTIONAL CHALLENGES

"The coming reporting season will be unlike any other members have faced," said ICAEW Chief Executive Michael Izza in an article on the 2020/2021 reporting season (tinyurl.com/AB-Reps).

There are multiple uncertainties and exceptional challenges ahead as the pandemic continues, the Brexit transition period comes to an end, and climate change risks come into sharper focus. "These developments are likely to affect several areas of financial statements," said Izza. Investors and other users will want information that explains how directors have assessed and responded to the implications for the business. "Transparent, forward-looking and entity-specific disclosures will be critical."

More disclosures of material uncertainties are likely to be necessary. Directors will need to review all areas of the financial statements that are subject to significant judgement and estimation uncertainty. Forecasting will play an important role - in particular, when conducting impairment and going concern reviews, and the level of uncertainty may require recourse to a wider range of scenarios and assumptions.

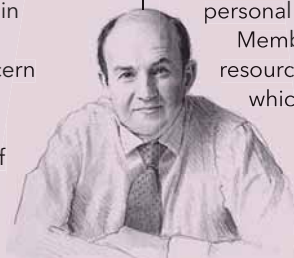
"Auditors will need to exercise and demonstrate appropriate levels of professional scepticism."

Uncertainty relating to accounting estimates and the going concern assumption may require an approach that involves seeking more or better-quality evidence, and evidence from different sources. Where sufficient appropriate evidence is not available and the risk of misstatement cannot be reduced, there are implications for the audit report. "Even where evidence is available, auditors are likely to need to refer to going concern issues in the auditor's report in several different ways," said Izza.

"I urge those involved in preparing annual reports to commence the planning process early. It may be sensible to consider the scope for flexing reporting deadlines, taking advantage of filing extensions, given the exceptional challenges that will be faced by preparers and auditors alike in both their professional and personal lives."

Members can find the latest resources on our specialist hubs, which are available at:

icaew.com/coronavirus
icaew.com/Brexit
icaew.com/climate
icaew.com/aaf



BREXIT SUPPORT TOOLS FROM BEIS FOR AUDITORS

To help firms prepare for the end of the Brexit transition period, the Department for Business, Energy and Industrial Strategy has created webinars on a number of subjects including *Providing services in the EU: professional qualifications, audit and accounting, and legal services*. Register to watch these videos at tinyurl.com/AB-UKTB

Related support tools are at gov.uk/transition

GOING CONCERN AND RESILIENCE

On 30 October, members attended the first virtual, cross-faculty event organised by the Audit and Assurance Faculty and Financial Reporting Faculty, on the theme of going concern and resilience. "It's really good to understand how many of you are interested in this issue," said Mark Babington, Executive Director, regulatory standards, at the Financial Reporting Council (FRC), who delivered the keynote address.

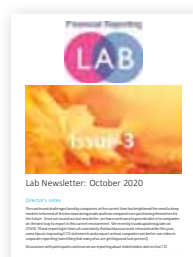
Sessions on preparing and auditing going concern, impairment of assets and asset valuations, and common COVID-19 accounting and auditing issues were all followed by Q&As. The event concluded with an informative and insightful panel session. The next issue of *Audit & Beyond* will consider the event in more detail, focusing on themes that emerged.

See icaew.com/aafwebinars for recordings from the event.

NEWS FROM THE FRC LAB

The latest quarterly update from the Financial Reporting Lab of the FRC provides an update on the lab's ongoing projects and activities, including its recently released reports on *Video in corporate reporting* and *Reporting in times of uncertainty – a look forward*. It also includes a set of tips to help companies make their section 172 statements more useful.

Learn more at tinyurl.com/AB-NewsletterOct



TECHNICAL UPDATES

The latest technical updates on developments in audit and assurance, financial reporting and ethics are available at tinyurl.com/AB-TechNibs

Recent outputs from the FRC include:

- a consultation on the proposed revision of the UK auditing standard ISA (UK) 240 (Updated January 2020) – *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (links to the exposure draft, consultation document and impact assessment are at tinyurl.com/AB-AudResp);
- a consultation on the proposed Third Country Auditors (Fees) Instrument 2020 (at tinyurl.com/AB-AudFees);
- inspection findings into the quality of major local audits in England for the financial year ended 31 March 2019 (PDF at tinyurl.com/AB-MajAudits);
- evidence in a submission to the Business, Energy and Industrial

Strategy Select Committee as part of its ongoing inquiry into delivering audit reform (at tinyurl.com/AB-Delivering); and

- its *Annual Review of Corporate Reporting*, highlighting the top 10 areas where improvement is needed (at tinyurl.com/AB-CorpReport).

Recent outputs from the International Auditing and Assurance Standards Board (IAASB) include:

- a communique detailing the IAASB's efforts to balance the needs of all its stakeholders by developing a separate standard focused on less complex entities, while simultaneously addressing complexity, understandability, scalability and proportionality in the International Standards on Auditing more broadly; and
- implementation plans of the IAASB's new suite of (yet to be released) quality management standards (at tinyurl.com/AB-ImpPlans).

FACULTY WEBINARS

A number of recent webinar recordings are available on demand from the faculty webinar library at icaew.com/aafwebinars

They include:

- climate change disclosures and assurance;
- hot topics and tips for 2021 audits;
- preparing and auditing going concern – lessons from COVID-19;
- common COVID-19 audit issues;
- common COVID-19 accounting issues;
- identifying and assessing risk under ISA 315 (Revised);
- remote auditing in practice;
- changes to the auditing and ethical standards;
- use of the reverse stress testing technique;
- considerations for auditing going concern; and
- practical considerations for auditing estimates.

The art of conversation: the extended audit report was recently the subject of ICAEW's annual PD Leake lecture (see page 18). A recording of this event is available at tinyurl.com/PDLeake and the accompanying slides are available at tinyurl.com/AB-ArtPaper

ICAEW Chief Executive Michael Izza interviewed FRC Chief Executive Sir Jon Thompson in a virtual event on audit reform and its impact on the regulator and the wider profession. See tinyurl.com/AB-ThompsonInterview



JOIN THE FACULTY BOARD

We are seeking applications to join ICAEW's Audit and Assurance Faculty Board. A full role profile is available at tinyurl.com/AB-TechStrat

Please contact carol.turner@icaew.com by 14 December 2020 if you would like to be considered, or please get in touch if you would like an informal conversation about the role and commitment.

No one could have predicted the year we have just had and many are still reeling from the shock. Yet, as 2020 draws to a close (which some may argue can't come quickly enough), auditors are likely to be facing one of the most challenging busy seasons in their professional careers – and their clients will need them to keep these efforts up throughout 2021.

The good news is that, having successfully navigated 2020, auditors should have the skills and tools to help them do this – and they will not be alone. The faculty will be there each step of the way, to keep members up to date with new audit and assurance developments.

WHAT TO EXPECT FROM THE IAASB

Plans from the International Auditing and Assurance Board (IAASB) include an eagerly anticipated separate draft standard for audits of less complex entities (with a project plan on the agenda for approval at the December 2020 Board meeting). They also include a revised International Standard on Auditing (ISA) for group audits (responses to an exposure draft on this were submitted in October); finalised guidance on assurance on extended external reporting, and anticipated plans and/or further progress reports on projects relating

to audit evidence, fraud and going concern, and technology and scepticism, among others.

More information on these IAASB projects can be found at iaasb.org

NEW STANDARDS

There are a number of new and revised standards on their way. ISA 540 (Revised), with its enhanced risk assessment procedures for auditing accounting estimates, takes effect for 2020 year-end audits. Auditors should hopefully have these requirements embedded in their audit methodologies by now.

The ICAEW resource hub for auditing estimates is at tinyurl.com/AB-AudEst

Related *Audit & Beyond* articles are at tinyurl.com/AB-Challenge540 and tinyurl.com/AB-Prepare

A faculty webinar on practical considerations for auditing estimates is at tinyurl.com/AB-Practical540

Then there is ISA 315 on identifying and assessing the risks of material misstatement. Extensive revisions to ISA 315 will be effective for audits of periods beginning on or after 15 December 2021 and will affect risk identification, evaluation and auditor responses. While this may still seem a long way off, the changes are significant and all audits will be affected, meaning all firms, software, training and methodology providers will therefore need to revise their approach to risk assessment.

The ICAEW resource hub on ISA 315 (Revised) for 2022 audits is at tinyurl.com/AB-ISA315

An ICAEW Insights article on the revised ISA 315 is at tinyurl.com/AB-Introduce

A faculty webinar on identifying and assessing risk under ISA 315 (Revised) is at tinyurl.com/AB-Identify

At its meeting in September 2020, the IAASB approved its new and revised suite of quality management standards, including the International Standards for Quality Management (ISQM 1, ISQM 2, and ISA 220 (Revised)). Firms must have compliant systems of quality management designed and implemented by 15 December 2022, and evaluated within one year. ISQM 2 and ISA 220 (Revised) are also effective for audits of periods beginning

HORIZON SCANNING

Are you ready for 2021? **Louise Sharp** offers some insights into what's coming up in audit

15 December 2022. Expect UK versions to follow.

These standards represent a change from the more traditional compliance-based approach to quality control. They take a more dynamic risk-based approach and include new requirements that reinforce leadership responsibilities in firms. The standards will also require more rigorous monitoring of the system of quality management in firms, understanding the root causes of deficiencies and prompt remediation.

To successfully embed this approach in audit firms will take time and effort. The faculty will be considering what implementation support would be helpful for members over the coming months.

Meanwhile, members may want to listen to a faculty webinar (from 2019) on what's new in quality management and what firms need to do about it, at tinyurl.com/AB-NewIn

AUDIT REFORM

We can expect to see more progress on audit reform in 2021. The faculty will continue to play a role in informing and influencing the debate on the future of audit through engagement with policymakers and responding to government consultation on the three major reviews by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon.

Auditors will be kept abreast of developments in future editions of *Audit & Beyond* and can visit our specialist hub at tinyurl.com/AB-Inquiry

COVID-19

The impact of the pandemic is likely to be long-lasting, and auditors can expect that this will continue to affect audits in 2021 and beyond. During 2020, the faculty created a number of technical and practical resources to assist auditors with aspects of COVID-19 on matters including: audit considerations around going concern; how to report and emphasis of matter under COVID-19; using electronic signatures to sign an audit report; how auditors and entities may use reverse stress testing; and remote auditing. The faculty will

HOT TOPICS AND TIPS FOR 2021 AUDITS

Auditors will have a lot to consider during the year ahead. The faculty webinar *Looking ahead - hot topics and tips for 2021 audits* will help auditors in small and mid-sized firms get ready by:

- looking at some current issues and topics;
- considering areas for improving audits into 2021;
- sharing insights from the latest annual audit monitoring report from reviewers in ICAEW's quality assurance team; and
- exploring some key risk areas with practical tips for improvement.

The live webinar presentation concluded with a Q&A session, so members also have the opportunity to learn about some of the matters that are perplexing their fellow practitioners.

The webinar recording is available at icaew.com/aafwebinars

continue to monitor the COVID-19 situation and provide guidance where needed.

Existing guidance for auditors on COVID-19 is at icaew.com/coronavirus/audit

BREXIT

ICAEW has created, curated and regularly updated resources to help all members prepare for transition.

Despite some uncertainty about what to expect after 31 December 2020, there are actions for practices to consider, as the UK government, European Commission, Financial Reporting Council and other bodies have been issuing instructions for actions they expect businesses to take.

To assist smaller firms, ICAEW provides a clear route to available instructions and guidance on audit, trade, employment, data protection, and professional qualifications. Find guidance at tinyurl.com/AB-BrexitPrepare

The faculty will continue to monitor developments as they unfold and consider the implications for auditing as we exit the European Union, updating guidance as required.

Brexit audit resources can be found at icaew.com/brexit/audit ●



Louise Sharp,
Technical
Manager,
Audit and
Assurance,
ICAEW

Root cause analysis is starting to make its way up the audit agenda.

Julia Penny shares some insights on what's involved and how to get the most from it

Until a few years ago, you might not have heard about root cause analysis (RCA) in the context of audit. However, the approach has been used for decades by various industries to understand what went wrong when some sort of disaster, such as a crash on a racetrack, or a quality issue, such as a manufacturing error, occurred. Audit regulators now routinely ask firms to conduct an RCA into quality failings identified during a review. But what exactly does RCA entail?

As the name suggests, RCA is about digging deep enough to uncover the underlying or root causes of the relevant failure to find out why this has happened. In the context of audit, this analysis might be prompted by a cold file review that identifies insufficient evidence on a valuation during an audit, for instance; the firm may want to find the reason for recurring failures when auditing accounting estimates; or RCA may be required if ICAEW's quality assurance review process categorises any of its findings as 'more significant'.

RCA also offers the potential to focus on success and share examples of good practices in audit. Where an audit is recognised as good quality, RCA can be used to identify causal factors that can be shared more widely.

This article will focus on the practical aspects of how RCA works, but it will also offer some tips on how to get the most from RCA and point auditors at some additional resources that can be used to learn more about the what, why, how, who and when of RCA (see box, opposite).

HOW RCA WORKS

Like the RCA process itself, explaining how it works can be done through a series of questions and answers.





How should an RCA begin?

An RCA can be carried out on a single audit, or in relation to a theme, where quality issues have been identified. The first step in any RCA project is to identify the scope and the resources required. A review of a single file may take just a few hours, whereas the review of a firm-wide issue could take many days.

Who should do the RCA?

The person carrying out the RCA (let's call them the RCA leader) should be as independent as possible from those responsible for the work being considered. This could be an outside consultant, where staff and partners might feel freer in telling them the true issues, or an internal manager or partner, with whom others feel comfortable.

Who will be interviewed?

Once the scope of the project is determined and you have established who will conduct the RCA, you will need to establish who is likely to have information that will help uncover the root causes.

For a single file, this will be those involved in the audit and possibly others, such as experts, those responsible for the audit methodology, training or staff allocation, for example. If the issue is firm-wide then typically a representative sample of individuals, including those who clearly have struggled with an issue and those who have not struggled, should be selected.

The person carrying out the RCA will then interview those individuals. Sometimes these interviews may involve multiple individuals, perhaps in the form of a focus group, particularly when considering a firm-wide issue. These interviews, or discussions, are likely to take the form of a series of 'Why?' questions designed to dig further and further down until the root cause of an issue is uncovered. This is sometimes referred to as a 'Five-whys' analysis, as each answer to a question prompts a further 'But, why?' question, until the root cause is identified.

How are the interviews conducted?

It can be useful for the RCA leader to set out potential questions for the interview to help provide some structure. However, once the interviews start, answers may lead the interviewer in a different direction, so there must be an ability to go with the flow and continue digging towards the real root cause. For example, if you are investigating why audit work on fraud does not fully reflect the ISA requirements, initial questions might be:

READ UP ON ROOT CAUSES

The Audit and Assurance Faculty produced a paper, *Improving audit quality using root cause analysis: what, why, how, who and when?* It was published in 2016 in response to requests from faculty members for practical help on how to carry out RCA, and it remains a useful tool for those tasked with improving audit quality.

For more information, the paper can be found downloaded from tinyurl.com/AB-ImprovingAudit

The Financial Reporting Council made root cause analysis the subject of an audit quality thematic review in 2016. Its review focuses on the six largest UK audit firms, but smaller firms may also benefit from the findings. The report is available (along with other reports on FRC thematic inspections) at tinyurl.com/AB-Thematic

The International Federation of Accountants published *A Step-By-Step Guide to Root Cause Analysis* in 2017, available at tinyurl.com/AB-StepByStep

- “Why did you/the team not identify the ways in which fraud could occur in the team discussion?”
- “Why did you/the team not identify the way in which revenue might give rise to fraud risks?”
- “Why did you/the team not consider management override of controls to be a fraud risk, and thus a significant risk, and design appropriate procedures to address this?”

Once in the interview, the answers will lead the interviewer along specific lines of inquiry.

For instance, the answer to the first question above may be:

- “We didn't really hold a team meeting as we were all out at other clients the previous week, then we just started work at the client's premises on Monday morning.”

In this case, the interviewer will need to consider to whom the next question needs to be addressed:

- “Why wasn't time factored in to hold a team discussion, remotely if needed, prior to the fieldwork?”

And answers to this might include:

- “I didn't have time to organise one”

QAD ON RCA

Audit Monitoring 2020 highlights RCA as a tool for improving performance. “It’s a valuable process for firms to add to their cold file review processes, and we are now asking firms to build in an element of RCA into their responses to our visit findings,” says Trevor Smith, QAD Director, ICAEW.

In the section on *Key findings from QAD’s 2019 monitoring visits*, the 2020 report provides some information on the benefits of RCA, and how the associated processes and documentation can be tailored to each firm’s specific circumstances and needs, as there is no single prescribed format or checklist.

For example, for a sole practitioner who has no staff, RCA may be a simple process with a small number of targeted ‘Why?’ questions identifying root causes directly linked to review findings. In contrast, larger firms with several active Responsible Individuals may require a more sophisticated approach to RCA.

When QAD requires RCA for review findings that it has categorised as “more significant”, firms can decide on the most suitable and proportionate approach, but their framework is expected to include:

- understanding the findings that have been highlighted as more significant;
- holding discussions with individuals involved in the relevant engagement(s); and
- reviewing relevant audit working papers.

Audit Monitoring 2020 along with the most recent versions of other ICAEW monitoring reports are at tinyurl.com/AB-Monitoring



“It is helpful to keep a record of the responses to enable an analysis of which issues are likely to be the most important”

- “I didn’t think about holding a meeting remotely”
 - “The team was working on a different job so wasn’t even available remotely”.
- This might lead to further questioning of relevant individuals as to whether there is a timetabling problem where planning issues, such as the team discussion, are not built into diary management. Or it could be that there is a cultural issue and team discussions are not considered valuable, and therefore get overlooked.

The point is that the interviewer continues to ask ‘Why?’ questions until they are confident they have got to the root cause or causes of a quality issue.

Clearly, many issues will have more than one cause, so there will be multiple lines of inquiry. If this is the case, it is helpful to keep a record of the responses from different individuals to enable an analysis of which issues are likely to be the most important.

How to get the most from RCA

If RCA is to be truly effective in raising quality, it must be done within a no-blame culture. Although you are asking individuals to focus on what went wrong

and why, it should be emphasised that this isn’t about blaming, but about continual improvement. All sorts of things become clear with the benefit of hindsight and some time for analysis, but in the thick of an audit, with a deadline looming, life looks very different.

It is also important that the RCA leader remains tenacious and digs deep enough to get to the actual root causes. RCA findings can be surprising, and the firm must be open to discovering less than positive things which it has not previously recognised about itself, or its systems and processes.

Timing is also important. RCA needs to be done at a point where individuals have had some time for reflection, but soon enough that they can remember issues and also to allow sufficient time for actions to be taken before the next audit cycle.

Finally, and perhaps most importantly, having identified the root causes, an action plan must be created and implemented to address them. This can be challenging, as it may mean increasing staff numbers, when there is a shortage of people, or changing ingrained approaches to project management, or other aspects of the audit. The benefits, however, are that identifiable quality improvements can be made by addressing the real root causes. ●



Julia Penny FCA, Technical Consultant, JS Penny Consulting, which advises on financial reporting, auditing and anti-money-laundering regulations

IN THE KNOW

Don't miss out on the latest resources for faculty members

During 2020, the faculty created many new member resources in response to pandemic-driven developments, revisions to International Standards on Auditing (ISAs) (UK) and to influence and inform debate around audit reform (see box).

During Q3 2020, faculty output included a number of know-how guides on auditor reporting, letters of support, and the latest addition to a series of thought leadership essays on the future of audit.

THE AUDITOR'S REPORT

A new requirement in ISA (UK) 700 (revised January 2020) means that all auditor's reports are required to include an explanation of how capable the audit was at detecting irregularities, including fraud, for audits of financial periods commencing on or after 15 December 2019. This was already a requirement for public interest entities.

How to report on irregularities, including fraud in the auditor's report - a guide for auditors focuses on the implications for the auditor's report and covers:

- what irregularities are;
- how the requirements have changed;
- what should be reported on in the auditor's report; and
- how COVID-19 may affect what is reported.

The guide is at tinyurl.com/AB-Irreg

LETTERS OF SUPPORT

In some scenarios, directors of a subsidiary may request from a parent a letter indicating a willingness to give financial support. *Letters of support - a guide for auditors* outlines considerations for auditors when deciding whether a letter of support, from a parent entity to the directors of a subsidiary, entity, may be relied on as audit evidence.

It covers:

- what is a letter of support (also known as a letter of comfort);
- a reminder of the responsibilities of

directors and auditors with respect to going concern;

- what ISAs say about letters of support;
- what case law tells us about relying on letters of support; and
- includes a list of issues and FAQs for auditors to consider when deciding whether to rely on letters of support as audit evidence.

The guide is at tinyurl.com/AB-Letters

THOUGHT LEADERSHIP

Audit quality: the role of standard-setting considers some major questions. What is audit quality? Do auditing standards need to be so detailed? What changes to standard-setting might improve audit quality? Can the International Auditing and Assurance Standards Board continue to serve both SMEs and the world's capital markets? It also reflects on some aspects of standard-setting, makes recommendations for the future and invites individuals and organisations to share their observations on the essay and its recommendations by contacting faculty head nigel.sleigh-johnson@icaew.com

All essays on the future of audit are at tinyurl.com/AB-FutureAudit ●

FACULTY KNOW-HOW

The audit resources page is at tinyurl.com/AB-Audit20

It offers links to technical help and guidance, webinars, publications and events, with content on coronavirus and audit, audit report wording and aspects of audit such as accounting estimates, materiality and remote auditing.

Audit & Assurance Faculty resources are at icaew.com/aaf

It offers access to exclusive faculty resources including *Audit & Beyond*, technical releases, forthcoming events, on-demand recordings of faculty webinars, helpsheets and other support tools.

Audit-related material is also available through the hub at icaew.com/coronavirus/audit



MORE, MORE, MORE

The revised ISA 540 applies to all accounting estimates. Auditors need to be aware of the main changes and ensure that documentation is adequate, says **Miriam Hanley**



There have always been challenges around the audit of accounting estimates and they seem unlikely to diminish any time soon. Some estimates are difficult to audit; their importance to investors and other stakeholders has increased in recent years, as changes to financial reporting standards have led to more accounting estimates in financial statements; and there has been a major revision to the standard ISA 540 *Auditing Accounting Estimates and Related Disclosures* for periods commencing on or after 15 December 2019.

The revised ISA 540 includes several enhancements and is significantly longer than the current version, but what are the main changes to be aware of?

ENHANCEMENTS

There has been a change in assessing the risks of material misstatement relating to an accounting estimate. The auditor is now required to separately assess inherent and control risk at the assertion level. The revised standard also introduces a spectrum of inherent risk in order to recognise that not all inherent risks are equal. These

assessments then form the basis for the design and performance of further audit procedures to respond to the assessed risks of material misstatement.

The revised ISA 540 includes a more prescriptive approach for the procedures to be performed in response to the assessed risk of material misstatement. The auditor also needs to ensure that they design procedures which are not biased towards obtaining corroborative evidence and ignoring contradictory evidence.

A stand-back requirement has been introduced as part of the revision. This means that once the auditor has completed the required audit procedures, they need to assess whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework and conclude whether they have obtained sufficient appropriate audit evidence.

The documentation requirements have also been enhanced. The auditor is now required to document the following:

- key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates;
- the linkage of further audit procedures with the assessed risks of material misstatement at the assertion level, taking into account the reasons (whether related to inherent risk or control risk) given for the assessment of those risks;
- the auditor's response when management has not taken appropriate steps to understand and address estimation uncertainty;
- indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit; and
- significant judgements relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

Some of these documentation requirements may look familiar, but it is important to not get complacent. It is likely that the enhanced requirements will lead to increased documentation on audit files. Inadequate audit documentation remains a common weakness across many audit firms, as evidenced in the ICAEW Audit Monitoring Report 2020 ([tinyurl.com/AB-QAMon2020](https://www.icaew.com/~/media/~/media/audit-monitoring-report-2020)). The enhanced documentation requirements in the revised ISA 540 will make this even more challenging.

It is important that auditors consider what needs doing to ensure compliance, so what practical steps can be taken?

PRACTICAL STEPS

Firstly, audit staff need to be made aware of the changes, including the enhanced documentation requirements. If they have no awareness of the changes, they will not be able to comply with the heightened requirements. It is important that relevant members of the audit team receive a technical update, which covers the changes in ISA

540. This update needs to be provided sooner rather than later, particularly when auditing short periods beginning on or after 15 December 2019.

The audit methodology and relevant checklists will need to be updated to reflect the enhanced documentation requirements. Many audit firms purchase their audit methodology from a third-party provider. If this is the case it is important to ensure an updated methodology is received from the provider, which includes the changes in ISA 540. The auditor will need to be familiar with any changes in the methodology and any new or amended checklists.

It seems sensible for one person in the firm to take ownership of reviewing the changes and then communicating these to the wider audit team. Audit firms will also need to consider whether the changes in the methodology are sufficient to enable compliance with the increased documentation requirements of ISA 540. Additional template documents may be required alongside the changes to the methodology.

Any changes in the audit methodology are likely to result in an update to the audit software. If both the audit methodology and software are purchased from a third-party provider, it is advisable to liaise with both to understand when the relevant updates will be received. This will aid planning the roll out of the required software updates and ensure it is performed in advance of commencing the work for December 2020 year ends.

When it comes to documenting work in relation to accounting estimates on individual audit files, what needs to be done?

The revised ISA 540 places a greater emphasis on the auditor maintaining professional scepticism. It is important that the audit documentation provides

TOP TIPS

1. **Be prepared** - ISA 540 will mean more work.
2. **Understand the requirements** - before deciding what needs doing.
3. **Study the key enhancements** - they could mean significant change for your firm, particularly around risk assessment, scepticism and documentation.
4. **Don't underestimate the scope** - all accounting estimates are affected.
5. **Raise awareness** - staff can't comply if they don't know what's changed.
6. **Allow sufficient resources** - for training and updating your procedures.
7. **Check your scepticism** - training may be needed to encourage and adequately document this.
8. **Check your documentation** - if auditors don't produce more documentation they may not be doing enough.
9. **Check your methodology** - the update and timings will affect your plans and your compliance.
10. **Check your audit software** - the timings of updates will affect your plans and your compliance.

“There are going to be many challenges for the auditor when applying the revised ISA 540. Auditors need to consider the impact of these changes sooner rather than later”

evidence that the auditor has challenged management on the selection and application of methods, data and assumptions in making accounting estimates. This could be difficult, particularly as ISA 230 *Audit Documentation* does not prescribe one single way in which professional scepticism is documented. This means the auditor will need to apply judgement in determining how they can demonstrate through the audit documentation that they have applied professional scepticism.

As an example, the auditor will need to consider how the documentation demonstrates that the audit procedures are not biased towards obtaining corroborative evidence while ignoring contradictory evidence. When complying with the stand-back requirement the auditor will need to demonstrate that they have considered all evidence, both contradictory and corroborative. It may be advisable to explicitly document whether any contradictory evidence has been identified and then assess the impact on the sufficiency and appropriateness of the audit evidence.

The auditor will also need to decide the best method for documenting the stand-back requirement, although this may be dictated by the audit software and methodology. One suggested approach would be to include the overall assessment of the reasonableness of accounting estimates and whether sufficient appropriate audit evidence has been obtained, in a summary memorandum included in the completion section of the file.

TAKE ACTION

There are going to be many challenges for the auditor when applying the revised ISA 540, including the enhanced documentation requirements. Auditors need to consider the impact of these changes sooner rather than later. An important part of this will be assessing how the enhanced documentation requirements will be complied with, and particularly how the auditor will demonstrate they have applied professional scepticism. ●



Miriam Hanley,
Manager, Menzies
and member
of the faculty's
Technical and
Practical Auditing
Committee

ICAEW RESOURCES

The Audit & Assurance Faculty has developed various resources and support tools to assist members with their preparations for implementation of the revised ISA 540. They are available through an interactive hub at tinyurl.com/AB-EstInteractive

It covers the ISA 540 requirements, auditors' responsibilities under auditing standards and practical challenges.

Accounting estimates are presented in a way that facilitates comparison between the existing and the revised ISA 540.

There are also some helpful reminders focusing on areas that can cause confusion and where further guidance might be helpful. They offer practical examples and tips on:

- how to spot accounting estimates and not overlook the more obvious ones in your audit;
- what needs to be documented and when, in your audit of accounting estimates;
- inherent risk factors in auditing accounting estimates; and
- a guide to *Auditing accounting estimates that give rise to significant risks*.

Resources related to the revised ISA 540 include an article on preparing for changes to ISA 540 (which appeared in the October 2019 edition of *Audit & Beyond* at tinyurl.com/AB-Prepare), looking at the risk assessment, scepticism and documentation enhancements and an article (which appeared in the July/August 2020 edition of *Audit & Beyond*

at tinyurl.com/AB-JulyAug2020) outlining some of the practical implementations challenges and how to address them.

An on-demand faculty webinar is available on practical considerations for auditing estimates (which was broadcast live on 7 May 2020). In it John Selwood offers:

- an overview of the changes to the ISA;
- practical examples for particular accounting estimates; and considers
- what scepticism looks like;
- how corroborating and contradictory audit evidence might be obtained, assessed and documented;
- what audit documentation might look like; and
- related COVID-19 issues.

Watch the webinar and download accompanying resources at tinyurl.com/AB-Practical540





SHOW OF STRENGTH

Areas of weakness in documentation and examples of good practice offer opportunities for auditors to improve audit quality

Documentation is an area where weaknesses repeatedly appear on the list of most common findings in ICAEW audit monitoring reports (as in the *Audit Monitoring Report 2020* at tinyurl.com/AB-Monitoring). To some extent, this is to be expected, and the volume of findings relating to documentation does not correlate with seriousness.

Weaknesses in documentation may occur in audits assessed as ‘acceptable’, if they relate to ‘limited concerns in relatively isolated areas’. Significant issues do, however, arise with documentation.

Reviewers from the Quality Assurance Department (QAD) do see instances where firms have not recorded important aspects of their audit work on key assertions in material areas, or key areas of judgement. Sometimes, key working papers have not been attached to electronic files, or a file has not been completed and archived within 60 days of signing the audit report.

“We see cases where too much reliance is placed on checklists, with a ‘tick-box’ approach to completing them”

A TICKING OFF

There’s a lot to be said for audit programmes and checklists, but over-dependence has downsides. “We see cases where too much reliance is placed on these, with a ‘tick-box’ approach to completing them, without sufficient supporting explanation on the audit file,” says Trevor Smith, QAD Director with responsibility for audit. “Documenting consideration of estimates, judgements and uncertainties, and demonstrating scepticism needs careful thought and attention, and cannot be adequately covered by a tick on a checklist.”

Feedback on documentation from QAD reviewers is not all bad; they also see examples of good practice (see box, right). These practical tips can help auditors to improve their documentation and audit quality, but auditors are entering a period when they will need to pay particular attention to documentation.

Both COVID-19 and the (enhancements to documentation in the) revised ISA (UK) 540 *Auditing Accounting Estimates and Related Disclosures* (see tinyurl.com/AB-AudEst) will have an impact on how much audit work needs doing and how this can best be documented. Getting documentation right is never easy, but it is not going to get any easier. ●

PRACTICE MAKES PERFECT

QAD shares some examples of documentation good practices to assist auditors; recent *Audit & Beyond* articles offer some practical pointers; and curated resources from ICAEW and other trusted sources are also available.

Tips from QAD:

- a highlights summary for each key section of the audit file;
- summary working papers identifying relevant assertions with links to detailed audit work;
- detailed step-by-step templates to drive consideration of all relevant factors in complex areas;
- clear cross-referencing from programmes and checklists to the underlying audit work;
- memoranda covering areas of judgement, including evaluation of contradictory or conflicting evidence, detailed evidence of challenge of management, and a clear trail to support the conclusion; and
- use of freeform planning documents to supplement standard planning templates and checklists.

Practical pointers from *Audit & Beyond* articles:

- how to demonstrate and document professional scepticism in the time of COVID-19 (tinyurl.com/AB-Bagshaw);
- how to address challenges around documentation and gathering of evidence in remote auditing scenarios (tinyurl.com/AB-RemoteAud);
- tips on how to minimise unnecessary documentation and how to avoid documenting irrelevant and unimportant things (tinyurl.com/AB-LessIsMore); and
- advice on enhancing audit documentation ([at tinyurl.com/AB-AuditDoc](https://tinyurl.com/AB-AuditDoc)).

Curated resources

To assist auditors with documentation, ICAEW offers insights and practical suggestions from various trusted sources at tinyurl.com/AB-Audit230

Remote working is here to stay, so now may be a good time to consider some of the challenges and pitfalls, and how to address them. If remote working is to continue successfully in the long term, what worked for a hurried response to the pandemic will need to evolve.

Some auditors in leadership and management roles may need to adapt their strategies and strengthen some of their softer skills if they are to manage their remote teams effectively. People management is a challenge of its own, but it takes on another layer of complexity when you lose face-to-face contact with your team. Those who

have been involved in remote audits will be aware of how the practice of audit is adapting to this (see opposite).

The scale and scope of remote and home working creates wider issues. With unusual levels of uncertainty and anxiety among individuals, team members and managers, it is important to acknowledge this and take steps to address the challenges.

DIGITAL COMMUNICATION

Even pre-pandemic, the digital era had changed how we speak and what we hear. For many of us right now, almost all of our communication is digital. We will continue to experience

new forms of miscommunication and misunderstanding, so adapting to the new rules of engagement has become vital.

In a recent webinar for CABA, I talked about some of the challenges and how to overcome them, by building a communication skill-set that reflects the demands of our digitally driven age. You can watch the webinar at tinyurl.com/AB-CABAWebinar

Digital communication lacks body language. The tone of a text or email is left wide open to interpretation, and this is particularly prevalent (and potentially problematic) if you are replacing face-to-face discussions with

SOFT SKILL SHUFFLE

Communicating digitally and managing remote teams requires new and enhanced skills. **Isabelle Campbell** offers tips on where to focus your efforts



“Remote communication distorts the normal pace of conversation, conflicting with our normal rules for social interaction. We can second-guess ourselves and become frustrated”

email exchanges and online chat. Even if you are holding meetings via video, the nuances of non-verbal communication do not translate over screens in the same way as when we are face to face. Missing body language could mean that you are missing some important cues and signals.

This raises particular issues that must be addressed before and during remote audits (as outlined in other *Audit & Beyond* articles and ICAEW support; see opposite). But there are many other scenarios where remote communications result in misinterpretations that can create anxieties, which affect morale, engagement and productivity - not to mention adding to emotional load in a time that already feels quite overwhelming for many people.

Remote communication distorts the normal pace of conversation, conflicting with our normal rules for social interaction. We can become distracted, second-guess ourselves and grow frustrated. How do you communicate dissent during a Slack chat? How do you ensure that everybody has a voice during video meetings? To perform well and maintain good spirits in your team, you have to find and develop new and better ways to operate.

CLARITY AND CONSIDERATION

Establish communication norms with your team. You need clarity on matters such as whether or not to use Slack, WhatsApp or other mediums - and when. Consider individuals' preferred response times, writing style and tone. There will be people who prefer short, quick messages, while others will need detailed information. People also differ in their preference and tolerance for humour and informality.

Birthdays and other milestones are still important: creating intentional virtual spaces for socialising can strengthen relationships and lay the foundation for collaboration. Think

about finding your own unique way to create social connection. How you do it is less important than whether you do it.

Build in opportunities for unstructured conversation: the type of small talk that usually takes place at the start or the close of a face-to-face meeting, by the water cooler, in the corridor or as you wander past each other's desks. Allowing time for this means that you can create an informal sharing environment before you get down to business or have a period of less formal interactions at the end.

Ensure that you allow time to disagree. With people being physically distant, it can be challenging if team members avoid complying with new ways of working or things that they don't agree with. Be extra careful to gain agreement and buy-in up front by encouraging all team members to debate and critique decisions before they are made. In some scenarios, dissent and disagreement can be valuable, so factor this into the time you allocate for some of your discussions.

Think about those in your team who are more likely to dominate in group discussions and ask the team how they think you can work together to give everyone an equal voice. This might be by dialling down the exuberance of some, or by inviting some of the quieter participants to speak up. If your goal is to gather contributions and ideas from everybody, you may need to clarify this in advance of or at the start of each meeting, or offer some team members the option of email or a one-to-one exchange.

LEAD BY EXAMPLE

Your team will look to you to set the tone, so lead by example. Create space for small talk and celebrations, encourage debate and disagreement, and be proactive in ensuring that everyone has a voice. We all need to adapt to remote and home working; we all need support.

Acknowledging the challenge will go a long way towards building the connections and providing the sense of stability your teams need, as we continue to work in this way for the foreseeable future. ●



Isabelle Campbell,
consultant, trainer,
coach and founder of
Be Bold and Believe

SOURCES OF SUPPORT

ICAEW has curated a host of resources to assist members with the challenges created by working remotely from home. Matters covered range from cybersecurity and cybercrime to video conferencing and remote collaboration tools. Visit tinyurl.com/AB-HomeWorking

Audit-specific resources on remote auditing include:

- *Remote auditing in practice*, a know-how guide (tinyurl.com/AB-RemoteAudit); and
- recent articles in *Audit & Beyond* (tinyurl.com/AB-Oct2020) and tinyurl.com/AB-Nov2020

Help and guidance is also available from CABA, the charity that supports past and present ICAEW members, staff, ACA students and their close families. Visit tinyurl.com/AB-CABAGuides

Resources include:

- *How to manage your team remotely* (a webinar at tinyurl.com/AB-CABAWebinar);
- *How to support your remote team* (an article at tinyurl.com/AB-RemoteTeam); and
- *Four tips for managing a remote team* (an article at tinyurl.com/AB-FourTips).



WHAT'S NEW?

Have extended audit reports delivered what investors and the profession hoped would be achieved?

Ask yourself a couple of questions: "Do you think expanded audit reports help users to assess a company's financial reporting quality or risks? Do you think the expanded reports help users to assess a company's audit quality or risks?"

This is how Miguel Minutti-Meza, Associate Professor of Accounting at the University of Miami, recently began ICAEW's first virtual PD Leake lecture, *The art of conversation: the extended audit report* - and they are important questions.

The new generation of expanded audit reports (known as extended audit reports in the UK) include disclosures about significant matters in a company's financial reporting and its audit. What these reports have achieved has been the subject of Minutti-Meza's global research for the past five years.

DEEP THINKING

During the lecture he considers the perspectives of regulators, auditors and investors. Poll respondents seemed to be upbeat about what has been achieved and the potential to go further in the future.

"Overall, I believe expanded reports offer a promise that is yet to be fulfilled," Minutti-Meza says. "Regulators, auditors and companies have spent considerable time and resources in making expanded reports a reality, but it is as yet unclear whether these efforts have increased (or will increase) the usefulness of audit opinions."

In his work at the University of Miami, which is ongoing, he questions the incentives for auditors in delivering new information. Minutti-Meza also suggests there has been some disappointment in the new reporting regime for investors, and he queries the role in all this for regulators - sharing some of the harsh realities when outcomes are compared with the best intentions.

Some of what he outlines in the early stages of his PD Leake lecture may not come as news to *Audit & Beyond* readers. Even auditors who have

neither written nor read an extended audit report or any of their additional disclosures, will be aware that (for affected audits) they heralded a notable change in auditors' responsibility to provide information to the public - and that the UK had a pioneering role back in 2013.

GLOBAL SCOPE

But as Minutti-Meza's research is international in its scope, much of what he goes on to say during his lecture on extended/expanded audit reports is not country-specific. As he observes: "We have moved from a world of standardised reporting to a world where the auditor has to produce disclosures. As of 2019, nearly 70 jurisdictions have complied with this requirement." Although he does consider some of the implementation differences.

On the content of extended/expanded audit reports, he pays particular attention to critical audit matters (CAMs) and key audit matters (KAMs), and some of the output differences that arise, despite "somewhat similar" regulatory requirements. "Although they are subtle in the writing, they lead to very strange cases. Some cross-listed companies have a lower number of CAMs than KAMs," he says, noting that Unilever has five KAMs in its European listings statement and two CAMs in its US Form 20-F.

MAJOR QUESTIONS

From here, Minutti-Meza moves on to ask and answer a number of questions.

- What are the regulators' objectives?
- Do standards lead auditors to meet the objectives?
- What are the incentives to provide new information?

On regulatory objectives, he sees a widespread common desire to increase the information content and usefulness of audit opinions, and to increase external monitoring of auditors and management. He also attributes a more aspirational objective to some regulators: to foster a more open conversation between auditors and users.

Minutti-Meza spends some time exploring the question of whether or not standards lead auditors to meet the regulators' objectives. "I've spent a considerable amount of time talking to regulators and reading the standards, and it is my belief that

"Auditors don't get additional remuneration from expanded reports, they can find themselves in conflict with management, and be the target of litigation due to voluntary disclosure issues"

LOOK AND LEARN

The 2020 annual PD Leake lecture on extended audit reports took place on 14 October. It was an hour long, therefore much of what it covered is not included in this article.

To view a recording of the lecture on-demand, visit tinyurl.com/AB-PDLeake

The presentation slides and Miguel Minutti-Meza's paper *The art of conversation: the expanded audit report* can be downloaded at tinyurl.com/AB-ArtPaper

the standards offer a somewhat narrow opportunity to provide new information," he says. And in his PD Leake lecture, he shares a number of reasons for this belief.

First, because the auditor is not really an information provider, they must give an opinion. "I'm not sure auditors are convinced of the expansion to their role," he says.

Other reasons he outlines include: conflicting messages about 'original information'; circular language that can lead to redundant information; and the narrow 'search space' for issues communicated to audit committees.

When it comes to incentives for auditors to provide more information, Minutti-Meza says: "It is debatable what the incentives are - besides compliance with regulation."

He can see little direct benefit for auditors from being forthcoming. "Auditors don't get additional remuneration from expanded reports, they can find themselves in conflict with management, and be the target of litigation due to voluntary disclosure issues," he says, citing various academic studies that back this up, including his own. Minutti-Meza also speaks out on CAMs and KAMs, saying: "It is difficult to see how they can possibly signal audit quality."

BABY STEPS

Based on this premise, he goes on to outline why extended/expanded audit reports have been a disappointment to many stakeholders. In most cases, Minutti-Meza says, the extended/expanded audit report has not caused a market reaction in the way that was hoped, it has not changed audit fees and it has not changed audit quality: "They simply do not contain as much information as some stakeholders expected."

He points out that auditors' disclosures do not necessarily achieve real communication of the issues a company may be facing. He says that we have seen this time and again in the extended/

expanded reports of companies that have recently collapsed. "In fact, users are very confused by what an auditor does," he says, and goes on to wonder whether auditors can ever disclose their views about issues within a company's operations, financial reporting, culture, economic environment and so on.

Minutti-Meza questions whether the purpose of the extended/expanded audit report is simply to reveal that there are "known unknowns". Is that what investors are demanding to know? Probably not. "We are at a crossroads," he says. "If we keep reporting in this way, the expanded audit report will become another checklist."

But he is optimistic: "It is my hope that expanded reports are only a first step towards enhanced auditor reporting." ●



JOHN SELWOOD'S AUDIT CLINIC

Major changes in auditing prompt some serious questions for coming year ends

QUESTION

What is changing in auditing for December 2020 year ends?

ANSWER

There are some significant changes to auditing standards for periods commencing 15 December 2019. I have seen some auditors almost caught out by short accounting periods.

If I stick with the headline changes, there are four main areas that auditors need to pay attention to: accounting estimates, going concern, reporting on irregularities including fraud in the auditor's report, and other entities of public interest (OEPIs).

In my opinion, the biggest change is ISA (UK) 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*, which adds many new requirements to an already onerous ISA in a difficult and important area of audit.

There are resources and support tools to assist auditors on the ICAEW website. See [tinyurl.com/AB-Estimates](https://www.icaew.com/~/media/Technical/audit/audit-estimates) ISA (UK) 570 (Revised) *Going concern*, and ISA (UK) 700 (Revised)

Forming an opinion and reporting on financial statements are also changing and will, to varying extents, have an impact on all audit reports.

I will return to ISA 570 and ISA 700 in my next question and point readers to some support materials that auditors may find helpful.

Then there are OEPIs. When the Financial Reporting Council (FRC) issued its *Revised Ethical Standard 2019*, it introduced the OEPI as a new category of audited entity, along with a new provision, and delayed the application date until December 2020. This provision extends to the OEPIs requirements that otherwise apply only to public interest entities (PIEs) with regard to providing these entities with non-audit services.

I have previously answered a question about OEPIs, outlining the FRC's definition of an OEPI and the restriction on providing them with non-audit services. You can find this at tinyurl.com/AB-JSclinic

It's worth restating that I am not offering an exhaustive list of things changing in auditing for December 2020 year ends. There are also numerous consequential changes to other ISAs.

QUESTION

I am confused about the upcoming changes to the audit report. What exactly is changing?

ANSWER

The short answer is ISA (UK) 570 and ISA (UK) 700. Now, for the slightly longer answer, let's take each of them in turn.

First, ISA 570. There are two significant changes to reporting on going concern.

- The paragraph on conclusions relating to going concern is now positively worded. This applies to all audits.
- There are additional requirements where an entity is a PIE, other listed entity, an entity that is required or has chosen voluntarily to report on how they have applied the UK Corporate Governance Code, or another entity subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018.



"I am not offering an exhaustive list of things changing in auditing for December 2020 year ends. There are also numerous consequences to other ISAs"

The auditor should include an explanation of how they evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

Perhaps the more significant change to audit reports is the new requirement in ISA (UK) 700 (Revised) that auditors report on the extent to which the audit was considered capable of detecting irregularities, including fraud. The auditor needs to tailor this reporting to each entity's individual circumstances.

This applies to all audits.

Paragraphs A39-1 to A39-5 of the ISA contain additional guidance in relation to applying this requirement, including factors that might be considered in preparation of an appropriate statement. The definition of irregularities, including fraud, is deemed to correspond to the definition of non-compliance in paragraph 12 of ISA (UK) 250A (Revised November 2019).

All of these changes apply for periods commencing on 15 December 2019.

Examples of these revised audit reports are in the FRC Bulletin *Illustrative Auditors' Reports on United Kingdom Private Sector Financial Statements* (tinyurl.com/AB-FRCBulletin).

There is also new know-how guidance from the faculty: *How to report on irregularities, including fraud, in the auditor's report – a guide for auditors*. It covers:

- what irregularities are and a reminder of the extant auditing standards;
- how the requirements have changed in ISA (UK) 700 (Revised January 2020);
- what should be reported on in the auditor's report; and
- how COVID-19 may impact what is reported.

You will find it at tinyurl.com/AB-Irregularities

QUESTION

Will my software update deal with these changes to the audit report?

ANSWER

You will need to communicate with your software supplier on this. But in short, no.

It should be straightforward to reword the 'conclusions relating to going concern' section to express the relevant conclusion in a positive way. However, where there is a need for the auditor to explain how they evaluated management's assessment of going concern (see above for the scope of this requirement), this explanation will need to be drafted to fit the circumstances of the audit and will not be boilerplate.

The same applies to the reporting of fraud and irregularities. Indeed, the application material in ISA (UK) 700 says that this should not be boilerplate. The software will not address this on its own. ●

TIPS FROM TAS

Revisions to International Standards on Auditing

To assist auditors, ICAEW's Technical Advisory Service (TAS) offers information on key revisions to ISAs, effective for periods commencing on or after 15 December 2019 and beyond. See tinyurl.com/AB-Revisions

Changes to ISA (UK) 540, ISA (UK) 570 and ISA (UK) 700 are all covered.

Looking further ahead, TAS also covers the effects of revisions to:

- ISA (UK) 315 *Identifying and Assessing the Risks of Material Misstatement* (effective for periods commencing on or after 15 December 2021, with early adoption permitted); and
- expected revisions to ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Other hot topics for auditors

TAS also provides some tips on other hot topics for auditors at tinyurl.com/AB-HotTopics

Many, but not all, of the matters covered relate to COVID-19, and there are sections on:

- going concern;
- stocktake attendance;
- emphasis of matter paragraphs;
- fraud; and
- extensions to filing deadlines.

Each section provides tips for auditors, with links to useful ICAEW resources.



John Selwood is a member of the faculty's Practitioner Services Panel and a freelance lecturer and writer

FROM THE FACULTIES

Keep up to date with what is going on in our selection of other faculty magazines

VIRTUAL ACCOUNTANCY Chartech

For many, the words ‘virtual reality’ (VR) probably conjure up images of gaming and futuristic movies. But use of VR is increasingly found in a range of professions, and is slowly finding some niches in accountancy. Sandra Vogel investigated VR’s existing foothold in the profession and how it may become something more substantial.

This year, as a result of the COVID-19 restrictions, there has been an urgent need for other ways to bring people together. Many in the profession have had to rethink their approach to meetings, with video replacing most if not all face-to-face interactions.

Virtual client meetings, webinars and training sessions are just the start. One VR provider, Box Bear, offers a product called VR Studio. This has the ability to project people into a virtual space – joining with a VR headset and using a headshot to appear as a virtual representation of themselves. External viewers can watch and participate remotely via phone, tablet or laptop.

Jolyon Hennings, founder of Box Bear, says: “VR can reinvent what a meeting can be, proving significantly more productive than real life in many cases.”

It’s a short step from immersive meetings to immersive learning, and VR has the potential to deliver both Continuing Professional Development (CPD) and training. As a profession built around a solid base of CPD, accounting is an excellent candidate.

Chris Downing, Director of Product Management for Accountants and Bookkeepers at Sage, is clear about VR’s position in the sector: “The increasing role of VR in the accounting profession will be around the digital classroom. As technology provides more methods of teaching, VR in accounting might involve the use of headsets sent out to remote workers to help construct a classroom space they can explore and interact with.”

While it may still be some time before VR becomes widespread, and it’s unlikely to change what accountants do day to day, it could change how things are done.

DIGITAL PROMPTS TAXline

HMRC is making progress with its digital prompt technology, designed to help taxpayers avoid errors and omissions in their returns.

The prompts – specific real-time messages appearing in software – were promised as one of the benefits of Making Tax Digital.

HMRC has already deployed digital prompts in services such as income tax self assessment (ITSA) and VAT returns filed using its own software. It is also working on more sophisticated ‘intelligent prompts’, and with commercial software providers. When results have been evaluated, it intends to release them for adoption by developers.

It has trialled a number of error-correction prompts and ‘upfront honesty declarations’ on VAT returns and certain sections of the online ITSA return.

The work has allowed HMRC to test the impact of prompts. In many cases, the yield to the exchequer has justified the effort.

OFF-PAYROLL WORKING Business & Management

Businesses will need to consider the implications of new tax rules that come into effect for medium and large private sector businesses from April 2021 and are likely to affect resourcing decisions.

Anti-avoidance legislation, IR35, aims to ensure the correct amount of tax is paid. So while it can be cheaper to hire a self-employed contractor (usually via their own company) than it is to take on an employee, if the contract is more akin to one of employment, the contractor should be treated, for tax purposes, as a deemed employee.

But the government believes the IR35 rules are not working effectively, so responsibility for determining employment status will, from April next year, move away from the individual contractor and rest with the business (engager).

These new rules are often referred to as off-payroll working rules and mirror the rules for public sector engagers.

VIRTUAL ACCOUNTANCY: ARE WE THERE YET?

Virtual reality has a remarkably wide range of uses, but has it found its feet in the accounting profession yet? Sandra Vogel investigates

CONFERENCES, MEETINGS

Virtual reality has a remarkably wide range of uses, but has it found its feet in the accounting profession yet? Sandra Vogel investigates

THE IDEA THAT ALL ACCOUNTING FIRMS...

are many factors that can cause accountants to rethink their approach to meetings, such as travel restrictions, disease control and budget reductions. In any case, as a result, other ways of meeting are being sought, and while there is always going to be a need for one-to-one business meetings, there will be a very good business reason for people to use the internet.

The idea that all accountants will be doing their VR headsets and dropping into client meetings any time soon is probably a fantasy. But it is likely that there will be other ways of meeting, and that these will be more frequent and more effective than the traditional face-to-face meeting.

Even if and when VR does become widespread, it is probably fair to say that it won't change what accountants do as their day-to-day jobs, but it could change how things get done. As we write this, the impact of the new tax rules on the accountants at least, aspects of the future are already here.

CONTINUING PROFESSIONAL DEVELOPMENT AND TRAINING...

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WHEN YOU PLACE YOURSELF IN A VIRTUALLY CREATED WORLD, YOU CAN SEE THINGS YOU COULDN'T SEE UNDER NORMAL CIRCUMSTANCES

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