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Audit & Beyond

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NAVIGATING ETHICAL STANDARDS

Key reminders on the *Revised Ethical Standard 2019* -
and directions of travel for the latest update



Life experience

Real-world examples
to ensure effective
journals testing

Auto response

How low-code and
no-code tools can aid
audit automation

Guiding intuition

Raising awareness of
the FRC's *Professional
Judgement Guidance*



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Facing the future

Change and challenge are the themes for our Audit and Assurance Conference this month (see tinyurl.com/AB-AuditConf) and these themes are also reflected throughout this edition of *Audit & Beyond*.

As we approach the effective date of 15 December for the design and implementation of a firm's system of quality management (SoQM) under ISQM 1, this edition highlights (on page 4) the latest ICAEW resources in our 'Quality management in audit firms' hub. Support will continue in 2023 as firms begin to evaluate their SoQMs and deal with practical operational challenges.

Taking a stand in the face of ethical pressures can also be challenging. *Navigating ethical standards* (page 6) offers key reminders on challenges when implementing the Financial Reporting Council's (FRC's) 2019 Ethical Standard and offers pointers on what auditors may expect from the next revision. We also share case studies that can assist firms and individual auditors who may encounter ethical dilemmas when putting ICAEW's Code of Ethics into practice (page 8).

Ethics is just one of many areas where the auditor's professional judgement is critical and on page 14 the FRC introduces its recently published 'comply or explain' *Professional Judgement Guidance*, which all audit firms must now take account of.

Amy-Joy Butler, Technical Manager, Audit and Assurance

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04

News and events

Audit and assurance news from the faculty

06



Standard bearers

Key reminders on the current FRC Ethical Standard and a look at what's on the horizon

08

On the case

Exploring examples of ethics-related dilemmas can help those facing similar issues

09

A bigger slice of PIE

What's putting public interest entity audits on the 'to do' list for so many audit firms?

10

In real life

The second of two articles on journals testing focuses on substantive audit work

12

Audit automation

Be empowered by low- and no-code tools and platforms

14

Room for improvement

How the FRC's new *Professional Judgement Framework* will help firms

16

Question corner

John Selwood on changes to auditing and quality management standards

18

From the faculties

A selection of articles from other faculty titles



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Faculty news & events

Stay on top of recent Audit and Assurance Faculty developments, as well as important events for your diary



Quality management countdown - with tips and tools to get you started and help you on your way

New quality management standards come into effect on 15 December 2022. For some firms, preparations are approaching completion, while others are still in the early stages. Nonetheless, by this date firms are required to have compliant systems of quality management both designed and implemented, with an evaluation of this within one year following this date.

To assist firms, the faculty is continuing to develop support resources, particularly for very small firms that may not yet have begun their implementation journeys. “We recently published some information and

tips, with a recommended reading and resource list, to help get them started,” says Louise Sharp, Senior Technical Manager, Audit and Assurance. You will find this at tinyurl.com/AB-ISQM-100

The ‘Quality management in audit firms’ hub on the ICAEW website also has articles, webinars and other resources to help audit firms prepare for the new quality management standards ISQM 1, ISQM 2 and ISA 220 (Revised) (at tinyurl.com/AB-QMhub).

Quality management is also the focus of an ICAEW Insights special (at tinyurl.com/AB-InsightsQM).

New anti-money laundering guidance video

ICAEW has added to its anti-money laundering (AML) resources with a short video on politically exposed persons (PEPs). The video summarises when and why they and their relatives can be a money laundering risk, what the regulations say, how a PEP is defined and what other risk factors might increase the risk profile of the PEP.

This is the latest in a series of ‘AMLbites’ videos on matters that also include:

customer due diligence; firm-wide risk assessments; sanctions; and suspicious activity reporting (at tinyurl.com/AB-AMLbitesVids).

ICAEW’s hub page for AML supervision offers various resources, including guidance on what’s required of an AML supervised firm, and to how to raise a concern about a breach of the Money Laundering Regulations 2017 (at tinyurl.com/AB-AMLSupervise).

FRC thematic on judgements and estimates

The Financial Reporting Council's (FRC's) recent thematic review on judgements and estimates may make interesting reading for auditors.

The thematic finds overall improvements since the initial thematic on this in 2017, but also sees room for improvement and offers examples of good practice including: quantified assumptions and amounts at risk of material adjustment; detailed explanations of management's judgements and the nature of the uncertainties relating to significant estimates; and discussion of the effects of climate change on estimates.

Learn more in an ICAEW Insights article (at tinyurl.com/AB-JudgeEst) and on the FRC website (at tinyurl.com/AB-FRCJudgeEst).

Technical updates

The latest news on developments in audit and assurance, financial reporting and ethics is available on the ICAEW website (at tinyurl.com/AB-TechNews).

Recent actions and outputs by the Financial Reporting Council include:

- regulations for the upcoming PIE Auditor Register. From 5 December 2022, all audit firms and responsible individuals who undertake statutory audit work for public interest entities need to be registered by the FRC (see page 9 and tinyurl.com/AB-PIEReg);
- research on auditor reporting in the UK, with in-depth analysis of the length and readability of auditors' reports, how auditors communicate, how the audit was performed, risks they identified, and responses to those risks (at tinyurl.com/AB-FRCsnapshot);
- an FRC Lab report on environmental, social and governance (ESG) data production, designed to help companies collect, use and share ESG data more effectively to support decision-making (at tinyurl.com/AB-ESGdata); and
- the 20th edition of its report on key facts and trends in the accountancy profession (at tinyurl.com/AB-KeyFacts), which includes information on the UK audit market and how it is becoming more open.

Recent output from the International Auditing and Assurance Standards Board includes:

- an FAQ on reporting going concern matters in the auditor's report (at tinyurl.com/AB-IAASBfaq); and
- a *First-Time Implementation Guide for ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement* (at tinyurl.com/AB-ISA315First).

The International Ethics Standards Board for Accountants (IESBA) recently published new guidance for auditors of public interest entities. This Q&A publication from IESBA explains key revisions to the non-assurance services provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* and fee-related revisions to the code (at tinyurl.com/AB-EthicsQA).

In other regulatory news, the UK's Department for Business, Energy and Industrial Strategy has appointed Pauline Wallace as the first permanent chair of the UK Endorsement Board (UKEB). Learn more about Wallace in a *By All Accounts* article (at tinyurl.com/AB-UKEBPauline) and read an ICAEW Insights article reviewing the UKEB's first year (at tinyurl.com/AB-UKEBYear).

EVENTS

Faculty webinar

Hot topics and tips on 2023 audits will be the theme of a faculty webinar on 7 November 2022. Peter Herbert will help small and medium-sized audit firms get ready for the 2022/23 reporting season by considering current topical issues and areas for improvement on audits into 2023. He will also be sharing:

- key messages from QAD's annual audit monitoring report relevant to smaller practices; and
- top tips for implementing new and revised auditing standards.

Make your booking at tinyurl.com/AB-Tips23

Webinar recordings

Recent additions to the library of faculty webinar recordings include:

- key reminders for firms on the Financial Reporting Council's 2019 Revised Ethical Standard, including ethical issues around remote working, role and mindset, professional behaviour in and out of work, and application of the objective, reasonable and informed third party test;
- a panel discussion among interviewees who contributed to the faculty's latest publication *Sharpening the focus on corporate fraud - an audit firm perspective*; and
- a presentation on assessing and responding to fraud risk factors in a financial statement audit - with practical tips for small and medium-sized firms.

Recordings are also available on topics ranging from climate risk in the statutory audit to a series on implementing the revised ISA 540. Visit icaew.com/aafwebinars

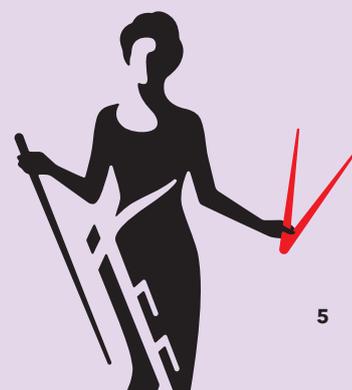
Audit and Assurance Conference 2022

'Change and Challenge' will be the theme of the faculty conference on 12 October 2022, 1pm-5pm, at Chartered Accountants' Hall, One Moorgate Place, London EC2R 6EA.

The conference will explore changes ahead for auditors, feature a panel discussion on how to address big practical challenges faced by firms today and breakout sessions honing in on topical issues including climate risk, technology, audit file inspections and the implementation of the revised ISA 315.

Attendees can look forward to a host of panellists and presenters, and there will be opportunities to network and engage with other firms and professionals.

Learn more and book your place at tinyurl.com/AB-AAConf



Navigating ethical standards

The *Revised Ethical Standard 2019* still presents implementation issues for some audit firms and the next update will present fresh challenges. **David Isherwood** and **Rupak Vasishtha** share some key reminders and pointers on the direction of travel



The Financial Reporting Council's (FRC's) *Revised Ethical Standard 2019* (ES) came into effect on 15 March 2020, shortly after Sir Donald Brydon delivered the last of three major reports looking at audit, audit regulation and the audit market (at tinyurl.com/AB-AuditTimeline).

Roll forward two and a half years. We recently received the UK government's response to these reports (at tinyurl.com/AB-GovTrust) and its plans for action, followed by a position paper (at tinyurl.com/AB-PosPaper) from the FRC, setting out how it will support the government's plans. The FRC's position paper focuses on five broad areas and notably includes, as a priority, plans to update the ES revised in 2019, and briefly lists significant changes. It seems fitting, therefore, to look

back at both the highlights and the challenges involved in implementing the current version.

Principles and provisions

Part A of the 2019 ES sets out the overarching principles of integrity, objectivity and independence, together with supporting ethical provisions, and these provisions have proved to be a very important aspect of the revised standard.

In combination with the 'Third Party Test' (which is discussed separately opposite), they have enabled practitioners and firms to better apply the ES to a wide range of facts and circumstances; particularly in situations where some of the more detailed provisions in Part B don't quite fit or where the judgements have been fine. It can be tempting to skip Part A of the standard, but it is valuable to bear it in mind

whenever analysing situations and judging the ethical outcomes.

Threats and safeguards

The conceptual framework of threats and safeguards is not new; it has been in international and UK ethical codes and ethical standards for many years. But the additions to this concept made by the FRC in the 2019 ES have been a challenge for many firms and practitioners to comply with – in particular, the new requirement relating to the timeline of documenting the threats and safeguards.

The fact that this documentation must be fully complete before any non-audit service is committed to, and before an engagement letter is issued, is a provision that requires very rigid engagement acceptance procedures, tight control activities and diligence by all individuals involved. Often these analyses are

performed in face-to-face meetings and if the resulting documentation is not completed before the non-audit service is committed to, this is no longer just a lapse, it is a breach of the ES.

Non-audit services prohibitions

The 2019 revision of the ES also brought in a suite of additional prohibitions concerning the provision of non-audit services to audited entities and it is important to remember that many of these prohibitions affected all audited entities, not just those designated as public interest entities (PIEs).

In particular, the prohibitions on contingent fee arrangements, secondments, internal audit services and remuneration services have perhaps had a big impact on some of the smaller accounting firms, where full-service-type arrangements were more common. Equally, for those firms that audit global groups, ensuring that overseas network firms comply with these additional restrictions has needed extensive education sessions and updated templates and controls.

For the firms that audit PIEs, the introduction of a permitted list has put a focus on the definition of services within firms' internal service catalogues, and elevated the importance of planning many years ahead – for both firms and audit committees – to enable tendering in future years.

The 'Third Party Test'

While the 'third party' concept is not new in the world of ethics, the 2019 ES further emphasised the importance of applying the 'objective, reasonable and informed third party' (ORITP) test to all ethical decisions and judgements. It essentially reinforced that principles should take priority over the rules.

The use of multiple third-party proxies was also introduced. This was an important change that meant the ORITP could not be another practitioner.

In our firm, the ORITP test typically factors into most of our day-to-day judgement calls and decision-making on ethical matters. Additionally, it's quite

often incorporated into our policies and documentation requirements. For example, it features heavily in our gifts and hospitality policies and all of our non-audit service documentation requires specific comment on an assessment against the ORITP test.

We appreciate that a third party's view can change over time depending on a number of considerations – for example, what the current public interest sentiment is. We have therefore incorporated the third party test in every one of our annual training modules since the 2019 release of this revised ES. This is to keep our people updated on the expectations of how the ORITP test should be applied and also help it to stay in the front of people's minds.

In today's world, we continue to see the challenge to demonstrate to others where we are evidencing that our conclusion is from a third party's view. For example, in our firm, for a particular critical judgement, we put together a consultation panel consisting of our independent non-executives – and by involving them we demonstrate the view of a third party.

What's on the horizon

As noted at the beginning of this article, the FRC has already stated that it intends to update its 2019 ES – and it expects to consult on a revised standard in Q1 2023. We know that this update will reflect some of the more recent changes from the International Ethics Standards Board for Accountants, including those in relation to 'fees' and 'non-audit services', and we also know that the FRC will be considering the effect on the ES of the UK government's recent proposals regarding the definition of a PIE.

Perhaps more importantly, though, we believe that the profession's continued compliance with the spirit, not just the letter, of the standard will be key to enhancing both trust in and value of our audits.

David Isherwood, Ethics Partner, BDO, and **Rupak Vasishtha**, Director, Ethics Team, BDO

Resources

Faculty webinar

The audit profession has had more than two years to digest and apply the *Revised Ethical Standard 2019* (ES). In a recently recorded Audit and Assurance Faculty webinar, ethics specialists from BDO draw on the firm's experiences with applying key changes in the revised ES. They also explore some requirements in more detail and highlight emerging issues for firms to consider. They:

- outline what they have learned, including about application of the 'objective, reasonable and informed third party test';
- anticipate some coming changes;
- consider the role and mindset of the professional accountant;
- reflect on ethical issues around remote working; and
- explore ethical issues related to non-financial conduct and the auditor's professional behaviour in and out of work.

The faculty webinar recording is available at icaew.com/aafwebinars

Additional ethics-related resources

Resources accompanying the webinar that readers may find useful include:

- the FRC's 2019 Ethical Standard and Glossary of Terms (both at tinyurl.com/AB-FRCESGlos);
- a summary of the FRC's 2021 conference 'Audit Firm Culture: Challenge. Trust. Transformation' (at tinyurl.com/AB-FRCCConf);
- the FRC's June 2022 *Professional Judgement Guidance* (at tinyurl.com/AB-FRCProfJudge);
- guidance from the UK's Consultative Committee of Accountancy Bodies on *Boundaries of personal and professional life in ethics* (at tinyurl.com/AB-CCABBound); and
- a November 2020 factsheet from the International Ethics Standards Board for Accountants on *Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants* (at tinyurl.com/AB-IESBAFacts).

ICAEW's Code of Ethics can be found in the Ethics hub (icaew.com/technical/trust-and-ethics/ethics) along with related resources. These include: auditor independence; what is meant by acting in the public interest; integrity; case studies on ethical dilemmas; ethics and new technologies; and where to find help with ethical problems.

Ethical dilemmas and how to approach them

Practical support with ethical matters is available in a series of case studies

Putting the ICAEW Code of Ethics into practice can be challenging, not least because of the complexity and ever-changing nature of how we live and work. As illustrative examples can help auditors to explore and understand 'the Code' and consider ethical dilemmas in a practical way, individuals and firms may find it useful to examine the *Ethical Dilemmas Case Studies – Professional Accountants in Public Practice* (at tinyurl.com/AB-EthicDilemmas).

The case studies were issued in February 2022 by the Consultative Committee of Accountancy Bodies (CCAB), an umbrella group of chartered professional bodies of British qualified chartered accountants, including ICAEW (see ccab.org.uk), following a CCAB Ethics Survey during 2021 (at tinyurl.com/AB-EthicSurvey). More than one in four of survey respondents reported being put under pressure to act unethically – by their own firms and by clients.

Standing firm

Verbatim responses during the CCAB survey described the types of pressures applied, for example: alteration of audit opinions; not obtaining sufficient appropriate evidence; ignoring ethical standards in relation to the provision of non-audit services; and favourable reporting on weak internal controls. The survey found that 80% spoke up to prevent being put under pressure and 65% did not carry out the unethical task they were pressured to do, although 10% did and 25% did so partially.

The CCAB case studies illustrate application of the 'conceptual framework' approach to resolving ethical dilemmas. This focuses on identifying, evaluating and addressing

threats to compliance with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, and threats to compliance that may result from, for example, self-interest, self-review, familiarity and long association.

Case studies

These case studies consider some audit-related ethical dilemmas, but also span a range of non-audit areas where practitioners may face ethical dilemmas:

- 1 Dealing with staff performance issues.
- 2 Improper accounting for sales.
- 3 Conflicting clients' interests.
- 4 How much to disclose to the finance director.
- 5 Placing unreasonable expectations on a student.
- 6 Financial interest.
- 7 Non-compliance with laws and regulations (NOCLAR).

Each case study outlines a scenario, asks questions that this prompts for a professional accountant in practice, and lists key fundamental ethical principles to consider, considerations (such as identifying relevant facts, affected parties and who should be involved in the resolution), and suggests possible courses of action. The case studies do not assess the auditor's responsibilities under the Financial Reporting Council's current ethical standard (at tinyurl.com/AB-FRCStandard), which UK auditors must also consider.

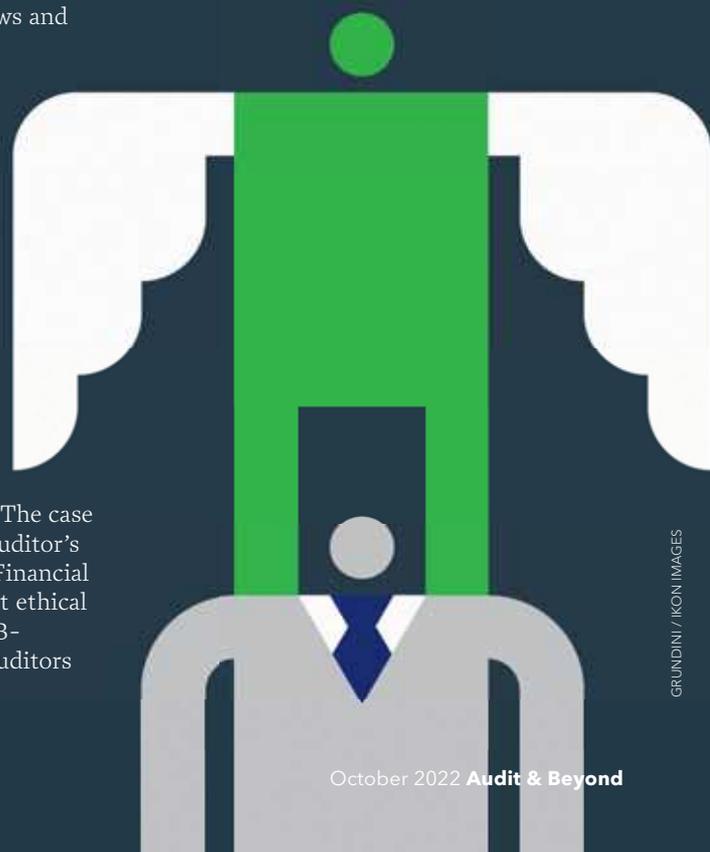
In addition to these case studies for practitioners, the CCAB has also published a selection of case studies for accountants working in business, the not-for-profit sector, as non-executive directors, and in the public sector – with the latter two both including audit-related case studies. Learn more and download these case study documents from the CCAB website (at tinyurl.com/AB-CCABStudies).

ICAEW's Code of Ethics is available, along with links to the Code and supporting materials, at tinyurl.com/AB-ICAEWCode

The ICAEW Code of Ethics is based on the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which is published by the International Federation of Accountants (IFAC) on its website (at tinyurl.com/AB-IFACCode).

ICAEW members have access to its Ethics Advisory Service via a confidential free helpline, exempt from the duty to report professional misconduct within ICAEW. Either call +44 (0)1908 248 250 or use a live webchat facility at icaew.com/contact-us/webchat

Ethics helpsheets prepared by ICAEW's Technical Advisory Service are available at tinyurl.com/AB-TechEthics



More pieces in the pie

PIE auditors need to register with the FRC and there are plans to widen the PIE definition. What will this mean for audit firms?

Changes relating to the statutory audit of public interest entities (PIEs) are part of the government revamp of the UK's corporate reporting and audit regime (see tinyurl.com/AB-RestoreTrust). The Financial Reporting Council (FRC) is already progressing some changes (such as PIE auditor registration), while some other changes (such as plans to expand the definition of a PIE) will progress after primary legislation.

All audit firms need to be aware of what's changing: some will need to act immediately and others may want to consider their options and plans in light of what's happening and what's in the pipeline.

PIE auditor registration

From 5 December 2022, all audit firms and Responsible Individuals (RIs) who undertake statutory audit work for PIEs will need to be registered by the FRC.

Firms engaged to audit PIEs need to apply and be approved to be included on the FRC's PIE Audit Register to prevent any disruption to their work. There is a transition period from 5 September to 4 December 2022 for existing PIE audit firms to submit transitional applications. The FRC published the (46-page) *Public Interest Entity Auditor Registration Regulations* on 18 August 2022 (at tinyurl.com/AB-FRCPIE).

Expanded PIE definition

Firms auditing one or more entities that may eventually be designated as a PIE – when the definition expands – have longer to consider their position and take action.

The government is set on expanding the definition of a PIE, bringing as many as 600 more companies under the new classification, so many more audit firms than previously will be affected by this and other PIE-related developments.

The expanded definition is expected

'Some firms are enthusiastic about the opportunity to develop their audit offering in the PIE audit market'

to include private companies, AIM-listed companies and third sector companies that have more than 750 employees and an annual turnover greater than £750m, in what many are already calling the 750:750 test. The auditors of these newly designated size-based PIEs have some time to decide their position. The expanded PIE definition is not expected to take effect before 2024 and may be subject to further delay before then.

Some firms are enthusiastic about the opportunity to develop their audit offering in the PIE audit market. Some firms are taking the decision to focus on their core private client work.

PIE audits

Firms that do not currently have PIE audit clients, but have a client that may fall into the expanded PIE definition, can expect a world of difference in terms of becoming registered to audit

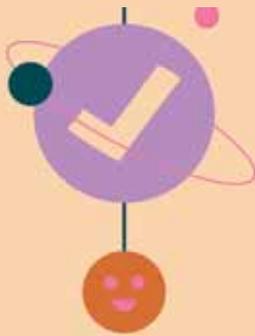
PIEs, getting their RIs registered to audit PIEs, updating all of their affected guidance, policies and so on. "It'll be a significant change for any firms new to PIE audits," says Geoff Swales, Director, PwC, in a recent ICAEW Insights article (at tinyurl.com/AB-PIEDefine).

The regulatory regime for PIE audits is more stringent and restrictive than the regime for non-PIE audits. "The independence regime for PIEs is more significant on issues such as providing non-audit services," says Swales. Firms without well-established processes to ensure they do not provide non-audit services to clients they shouldn't, will need to update their policies and procedures and ensure that all of the firm's auditors understand what is changing and why.

"PIE auditors have to deal with greater regulatory scrutiny and need to be aware of the nature and extent of the documentation the FRC expects for compliance purposes," says Katharine Bagshaw, Senior Manager, Auditing Standards, ICAEW. PIE auditors need particular skills and knowledge of all legislation, auditing, ethical and quality management standards relating to PIE statutory audits, which are subject to review by the FRC's Audit Quality Review team. There's a lot to think about.

Public interest entity audit





Journals testing continues to be one of the areas where audit quality reviewers and regulators raise concerns over the audit work carried out by firms.

In my last article (see tinyurl.com/AB-Journals1), I focused on the controls aspects of journals testing. In this article, the focus moves to substantive audit work and how we can efficiently and effectively meet the requirements of the International Standards on Auditing (ISAs), by looking at real-world experiences.

When should we test journals?

One of the most frequent questions asked on audit training courses, when journals are mentioned, is: “How many journals should I be looking at?” The

easy answers of course are: “It depends on your audit methodology” or “It depends on your risk assessment.”

Both answers may be true. Neither is overly helpful if you are a hard-pressed audit senior, on a Friday afternoon, trying to get the file completed and ready for manager review.

But maybe therein lies the problem. Should journals testing be one of those areas left until the end? I would argue not. Journals are the heartbeat of the financial reporting process for many entities. They are where the senior finance people make all the adjustments and craft the final look of the financial statements. So why leave looking at them until late in the day?

The old joke is that we do bank and cash on a Monday morning “because

Learning from experience

In the second of his two articles on journals testing, **Andrew Paul** considers some key questions on substantive audit work and also looks at some real-world examples



it gives a good overview of the whole process” (not just because it is an easy place to start). If this is the case, then I would argue that hot on the heels of bank and cash should come journals, as they also give a great insight into where adjustments are being made and where other audit work may need to be focused.

Often you will see a comment on the audit file that journals have been reviewed as part of another audit section, but I would suggest it makes more sense to start with the journals to drive focus towards other sections.

What testing should we be doing?

ISA 240, both in the UK and internationally, is extremely clear that journals testing is mandatory irrespective of the risks of management override of controls.

Specifically, the auditor is required to:

- make inquiries about inappropriate or unusual activity relating to processing of journal entries;
- select journals made at the end of a reporting period; and
- consider the need to test journal entries throughout the period.

The ISA requirements manage to be both prescriptive and vague, with the use of “unusual” and “consider” giving lots of scope, but a very specific mandate to look at cut-off journals.

As with all risk-based audit work, it is important to document why you do not do something, as well as documenting what you actually do. If you decide that there are no risks driving you to make inquiries or perform other testing, it should be noted on the audit file how you arrived at that conclusion.

How many items should we test?

The Financial Reporting Council’s (FRC’s) report into the audits of Patisserie Valerie (at tinyurl.com/AB-PatVal) gives a great example of the problem here. The auditor is criticised for testing insufficient cut-off journals, but also for testing an “excessively large” sample of other journals that were not tested effectively. Clearly, getting journal samples right is not a simple task.

The auditors did, however, break journals down into disaggregated groups for testing. Key groups would include:

- cut-off journals and their reversals (month-end and year-end);

‘It is important to document why you do not do something, as well as documenting what you actually do’

- large journals (over and above a set level);
- unusual journals (with entries to unexpected nominal codes);
- journals posted by senior management (when this is out of the ordinary); and
- journals posted at unexpected times (evenings, weekends, bank holidays, and so on).

Clearly some of these categories may overlap, but the above categories should still be considered in selecting the journals for testing. If a journal is picked up twice under two different headings, of course it need only actually be tested once.

The key is focus. There is little to be gained from randomly picking journals in the hope of happening upon something. Use your understanding of the entity, the personnel, the systems and controls to select the risky journals and test them. If there are fewer risky journals, so be it.

Journals is not an area where being wedded to a set sample size is going to be helpful. Use your audit judgement and scepticism and pick a sample appropriately. As the FRC report demonstrates, too many with a loss of focus is as bad as too few.

What about the role of software?

These sample selections can be facilitated by using automated software tools such as Inflo, MindBridge, CaseWare IDEA, TeamMate Analytics or other proprietary software. But if you are using these tools, there are two key questions you must consider:

- 1 Has all the raw data been included? Most packages will run data integrity checks such as rebuilding a trial balance to ensure that you are selecting from a full data set; and
- 2 What are the selection criteria in the software? The audit team must understand how the software is selecting the journals to test. It will not be sufficient to record: “We tested what the software told us to.”

There should be a report on the audit file explaining the selection criteria used and the risk scoring applied to the population.

An often-heard comment is that Microsoft Excel could be used to perform such analysis and selection of journals for testing, through sorting and filtering functionality. While this is true, the larger the data set and more complex the business, the more difficult it will be to use a simple spreadsheet solution. For small simple data sets, however, the spreadsheet can be an effective option.

What supporting evidence should we obtain?

Having set our selection criteria and generated our sample to test, what evidence should we obtain to support the journals that have been posted?

The answer will, of course, depend on the journal being posted. As we discussed in my earlier article on controls, there should be procedures to approve journals and – as a minimum – you should be looking for evidence of review of the journals posted.

For the month-end or year-end accruals, prepayment and depreciation journals, suitable supporting working papers should be available, or a proof in total analytical procedure might be appropriate.

For the more complex journals, vouching back to the detailed supporting calculations for an impairment provision or bonus is a must. But this then brings me back to my earlier point – journals are never posted in isolation. They will be posted to increase or decrease numbers across the financial statements so, to be efficient, combine the review of the journals with the testing in that audit area, to give holistic evidence rather than piecemeal testing in several sections of the file, which could mean you risk missing the big picture.

What about the big picture?

This is where the revised ISA 315 stand-back procedures come into play. Make sure someone is taking that step back and looking at the interactions of journals across the whole audit file. As we saw with the Patisserie Valerie case, it is too easy to get lost and not see the wood for the trees.

Andrew Paul, Audit Software and Technical Manager, Baker Tilly International

Exploring low-code and no-code audit automation

The democratisation of analytics and automation is gathering pace. With more and more firms putting new, easy-to-use tools in the hands of their auditors, **Ian Pay** explores what this means for the profession, and the audit approach



When electronic spreadsheets arrived in the 1970s, they became a ‘go-to’ tool for many auditors and other accountants who wanted to quickly and easily store, manipulate, analyse and perform tests on data – particularly if other available software could not meet their needs. The spreadsheet’s cell structure and formulae empowered accountants to build ‘software applications’ without the assistance of a programmer. Fast forward 50 years and many accountants still reach first for the spreadsheet in many scenarios. But now there are other ways to automate processes without the assistance of a programmer, such as ‘low-code’ and ‘no-code’ tools.

What are low-code and no-code technologies?

While the names may seem relatively self-explanatory, it is worth exploring what we mean by low-code and no-code tools. They are, in essence, software packages and platforms that ‘hide’ the nuts and bolts of the computer code from the end user. These tools are designed in a way that can significantly reduce, or even eradicate, the need to learn coding skills or write scripts to perform both simple and complex data manipulations and routines.

Low-code and no-code development typically works on a ‘drag and drop’, visual design principle. Pre-built functionality and re-usable components that represent particular steps or capabilities can be connected to create workflows, automate processes and can even be used to build complex applications. This can empower accountants

and others who are not professional software developers to build business-led software that meets their individual needs – and can easily be scaled and rolled out to the wider organisation.

What’s available?

Some of you may already be familiar with the most popular solutions providers in the world of low-code and no-code technology: Alteryx, Mendix, OutSystems and UI Path, for example, are becoming increasingly well known. All of you will be familiar with the big players in various tech and business software sectors that also offer low-code and no-code platforms and/or tools, to allow users to enhance and extend the functionality and value of their technology stacks and to facilitate integrations between different applications.

Low-code and no-code tools integrated into the SAP Business Technology Platform can, for example, be used to build and extend applications, automate tasks and processes and get more value from the associated data. Another name that auditors will be familiar with is Salesforce. Its workflow solution, Einstein Automate, for example, includes a low-code point-and-click tool for building, managing and running automated processes, which can connect external data sources.

Microsoft (MS) offers various no-code and low-code solutions. They include MS Decisions, MS Power Apps, MS Power Automate and MS Azure Logic Automate, which do different things and require different types and amounts of knowledge from users. Some low-code and no-code

'In many instances, the distinction between low-code and no-code is in the implementation and complexity of the solution'

tools are more specialised than others. The Google Cloud App Sheet is a no-code app development and automation platform with many potential uses, while its Vertex AI low-code workbench is for developing machine learning applications.

In reality, there are few platforms that are truly no-code. In many instances, the distinction between low-code and no-code is in the implementation and complexity of the solution, as it is impacted by the components and functions that are being used. Put simply, some components and functions require more configuration than others, which is where the 'low' part comes into play. You may want to dig deeper and explore a few of the platforms and tools available and what they make possible (see panel, below).

How may the auditor benefit?

You could, for example, build a portal the client can use to share and store information/evidence that has been requested during the audit and to generate automated requests and reminders. Your firm could, for example, support its system of quality management by creating workflows to systematise responses to risks that could threaten the achievement of quality objectives. For auditors, there are many, many possibilities.

The reviewability of low-code and no-code technology is also a major plus point. It is generally far easier to 'see' what a low-code or no-code solution is doing, and to understand this, than it is to see and understand what's being done with more script-based solutions, which inherently require technical expertise to review.

Of course, this is not to say auditors don't need to be sufficiently skilled in the use of a low-code or no-code solution to be able to review it. And it almost goes without saying that auditors should be sufficiently skilled to build the solution in a robust way. But for the skillsets that are required with low-code and no-code tools, the barriers to entry are typically lower than they are with script-based solutions.

What about risks and challenges?

It is important to acknowledge that low-code and no-code tech is not without problems. First and foremost may be the issue of cost. Software developers have, in many cases, invested a substantial amount of time and effort in developing their low-code or no-code product, or adding low-code or no-code tools to their suite of products and services, and the cost of this invariably

has to be passed on. Consequently, there can be a trade-off between the accessibility of a low-code or no-code tool and the licensing cost of adopting it.

However, this is not universally the case; MS Power Apps and MS Power Automate are, for example, bundled with many MS 365 enterprise license agreements, so you may in fact already have access to a low/no-code solution without even realising it. In addition, a number of low-code and no-code development platforms are available free to try before you buy.

As well as cost, another major challenge with low-code and no-code tech can be complexity. Yes, you can do some very powerful things with these tools, and quickly, but turning your proof-of-concept into a fully-functioning application that accommodates all possible scenarios is likely to be trickier. Building a complex solution using a tool such as Python may present more initial hurdles, but it is likely to lead to a better product in the long run, and the skills developed may be more transferable.

Are low-code and no-code solutions the future?

It's fair to say that the proliferation of low- and no-code solutions over recent years has moved the dial when it comes to application development – for those who are and those who are not software developers. Research by specialists such as IDC and Gartner found increased uptake of low-code and no-code tech over the past few years and both firms predict accelerated and increased uptake over the next few years, so this approach to software development is very much here to stay.

Traditional approaches are powerful and still have their place, of course, and there is an art in identifying the tipping point between these and the 'quick and easy' world of low-code and no-code. But for auditors and other accountants, the appeal of low-code and no-code technologies may come down to one word: empowerment.

Ian Pay, Head of Data Analytics and Tech, ICAEW

Common uses and new possibilities

One of the biggest advantages of developing workflows and software applications using low-code and no-code solutions is the immediacy of it. Almost anyone who sees a problem can build a solution to it, and this can easily be done incrementally.

Common uses are those based around automation and simple analytics, such as:

- combining datasets;
- performing reconciliation routines; and
- setting up processes that automatically respond to external factors (such as receiving an email with a particular subject).

All of these examples could very easily be built using low- or no-code tools. The possibilities for auditors and other accountants are endless and applications can often be delivered without the need to employ expensive developers. Many of the low-code and no-code tools and development platforms out there can be easily picked up with – or even without – a few hours' training.

The application of professional judgement in the conduct of audits (and other assurance engagements) is a requirement of the auditing standards. It can be difficult to describe and even harder to define, but it's an area where auditors strive to enhance their skills and those scrutinising audit quality find room for improvement. On 23 June 2022 the Financial Reporting Council (FRC) published *Professional Judgement Guidance*, which aims to help auditors improve their practice in this key component of audit quality.

The guidance introduces a *Professional Judgement Framework*, offers illustrative examples and outlines regulatory expectations around how the guidance – in particular the 'framework' – will be used to enhance professional judgement and audit quality. The FRC shares highlights in the panel opposite. Auditors can access the full report, 'outtake' documents and a separate paper on the regulator's expectations at tinyurl.com/AB-FRCGuide

The FRC intends the guidance to be 'persuasive' rather than 'prescriptive',

'Poor professional judgement has been noted as a "significant contributor" to recent audit failings'

but it is consistent with a range of other FRC guidance, such as Practice Notes, for example, so all UK firms need to consider the new *Professional Judgement Guidance*. "Practitioners who choose not to use or consider the guidance will need to be prepared to explain how they have complied with relevant engagement standards," notes Katharine Bagshaw, Senior Manager, Auditing Standards, ICAEW.

Comply or explain

Practitioners who choose not to apply or consider FRC Practice Notes already need to be prepared to explain how they have complied with the requirements of the engagement standards. The FRC expects firms

that choose not to adopt its *Professional Judgement Framework* to at least analyse and understand it, and identify and remediate areas within their own framework that could be enhanced.

The FRC will not require firms that already have their own professional judgement framework to instead adopt the FRC's, but it is encouraging such firms to assess how and in what circumstances they apply their framework. Although there is no explicit requirement for firms to use a professional judgement framework, the FRC is also encouraging firms that do not yet have one to consider the merits of developing their own or applying that of the FRC.

Practice and resourcing

The need for professional judgement may appear to be most obvious in areas such as risk assessment, fair values, going concern, interpretations of standards, design of procedures or assessing the sufficiency and appropriateness of evidence. In addition, it shapes decisions about matters such as how an audit is resourced, the allocation of tasks, the need for specialist skills or knowledge, and the time needed to complete an audit.

Professional judgement is also called upon in the design, implementation and operation of a system of quality management (SoQM) at the firm level. As many firms are currently implementing the quality management standards ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220, this presents a timely opportunity for firms to ensure they have a robust professional judgement framework in place.

Responding to circumstances

The guidance is a response to poor professional judgement being noted as a 'significant contributor' to recent audit failings. It goes some way to pull together guidance on an intuitive subject. For some firms and individual auditors, aspects of the guidance may serve to highlight opportunities to improve their professional judgement and strengthen associated procedures and structures.

As the FRC's guidance states: "Understanding the nature of a more structured approach can help individuals and teams improve their more intuitive judgement-making,

Guiding auditor intuition

The FRC's new guidance on professional judgement is not prescriptive, but all audit firms need to do more than simply be aware of it



for example by deepening their understanding of areas where they may be most susceptible to biases and other judgement traps.” Where a more structured approach is appropriate, the framework may assist auditors to better take account of all relevant considerations and achieve a high quality of judgement.

Finely balanced judgements

There is significant evidence that auditors regularly exercise high-quality professional judgement, as the FRC notes in the panel on the right. Audit quality reviews conducted by the FRC and by reviewers in ICAEW’s quality assurance department do, however, find instances in which the auditor’s professional judgement does not appear to have been exercised effectively and could be more consistent.

Trevor Smith, Director, Quality Assurance, ICAEW, says: “Application of professional judgement with scepticism and appropriate challenge of management is critical to high-quality audits. Lack of these skills is a factor in many weaker audits and we also see good practice, where auditors have applied robust challenges of an audited entity’s management to explain and justify key judgements underlying the information in their financial statements.”

Application matters

Instances where professional judgement has not been exercised effectively and consistently have been seen by the FRC in firms that already have a professional judgement framework. In its Expectations Paper, the FRC notes the significance of how such a framework is applied. “It is not simply the existence of a framework which is important, but how effectively it is utilised in the specific circumstances of a firm, or of an engagement.”

The same could be said of other aspects of the FRC’s *Professional Judgement Guidance*. Some firms may, for example, want to utilise the fictional illustrative examples as an education aid or consider the regulator’s Expectations Paper as they finesse their SoQM. Determining how the guidance can best be utilised in the particular circumstances of each firm and engagement will, as with other aspects of audit, require professional judgement.

THE QUALITY OF JUDGEMENT

Ramana McConnon, Audit Policy Project Associate at the FRC, introduces its new *Professional Judgement Guidance*

In June 2022, the Financial Reporting Council (FRC) published its comprehensive *Professional Judgement Guidance* for auditors. Professional judgement is key to high-quality audit; many significant quality failings identified by the FRC’s Audit Quality Review (AQR) team involve the poor, or inconsistent, exercise of auditor professional judgement. In Sir Donald Brydon’s 2019 review on the quality and effectiveness of audit ([tinyurl.com/AB-Review](https://www.frc.org.uk/~/media/20190624_tinyurl_dot_AB_Review.pdf)), he recommended that the FRC (or its successor, the Audit, Reporting and Governance Authority) “should revisit the existing definition of professional judgement with a view to strengthening, and demonstrating better, the use of judgement in audit.”

The FRC felt it could best achieve this aim by producing non-prescriptive guidance. The FRC convened an expert working group comprising members from various FRC teams, audit firms and academia, including Professor Sir Andrew Likierman, Professor of Management Practice in Accounting at London Business School and its former Dean.

The FRC’s guidance includes a framework for making professional judgements, followed by a series of illustrative examples.

The framework has four elements:

- Mindset – an appropriate mindset for auditors exercising professional judgement;
- Professional Judgement Trigger and Process – a suggested professional judgement process, together with a reminder to remain alert to situations that may require professional judgement;
- Consultation – effective communication with a range of relevant parties; and
- Environmental factors – factors that may be present in the environment of those making a judgement, which can impact on how challenging it is to exercise professional judgement in an appropriate manner.

This framework is supported by a series of three illustrative examples, showing auditors exercising professional judgement in hypothetical scenarios. These are not intended to show best practice, or even good practice. The examples intentionally show judgement processes that contain flaws and they include commentary on these areas and on areas where something has been done well.

Alongside this guidance, the FRC has published a paper concerning regulatory expectations around how it might be used to enhance audit quality.

This guidance is non-prescriptive, consistent with a range of other FRC guidance (Practice Notes, for example). However, this does not mean that audit practitioners in the UK can disregard it; auditors are expected to be aware of, and take into account, such guidance where relevant.

This guidance can be used by auditors making professional judgements directly, as a stand-alone guide to the application of professional judgement.

Central teams in audit firms may find it useful in the context of the firm’s training, resourcing, methodology and other intellectual resources.

Additionally, those elsewhere in the financial reporting chain (for example, personnel in finance functions or members of audit committees) may find this guidance useful in making their own judgements, or in better understanding how auditors make decisions.

Firms do not have to use a professional judgement framework and those with an existing framework are not required to use the FRC’s instead (although they are expected to assess whether there are any areas where theirs could be enhanced). The implementation of ISQM (UK) 1 represents a significant opportunity to ensure that any professional judgement framework that is being applied helps address risks to audit quality within the firm.

There is significant evidence that auditors regularly exercise high-quality professional judgement. However, there can be a lack of consistency here, which can affect audit quality. The FRC’s intent is that this guidance can facilitate consistent, quality professional judgements and therefore enhance audit quality.

The FRC *Professional Judgement Guidance* and associated documents are available at [tinyurl.com/AB-FRCGuide](https://www.frc.org.uk/~/media/20220624_tinyurl_dot_AB_FRCGuide.pdf)

Question corner

This month **John Selwood** addresses questions arising from concerns about upcoming changes to auditing standards

There is a lot of change on the horizon for audit firms over the coming months, as December 2022 deadlines approach. Implementing the new and updated International Standards on Quality Management (ISQM), the revised risk ISA (315) and the revised UK fraud standard (240) will require significant resources from firms, and compliance will mean not just changes to systems and processes, but mindset change for many individual auditors.

I have read ISQM 1, related guidance from the International Auditing and Assurance Standards Board (IAASB), and attended the faculty's webinars. I realise that to address the requirements of the standard I may need some help in the form of a tool. Would you recommend that I use one of the commercially available ISQM 1 tools, and if so which one?

In my opinion, using a preparatory tool to help with implementing ISQM 1 is a good idea. Even quite large firms are doing so.

Predictably, I can't recommend third party products in *Audit & Beyond*, but, even if I could, I wouldn't.

The commercially available products, from different providers, are all very

different and provide different types of assistance. Some will give your firm leeway to go its own way, others will do more to direct you. I can't tell you which of the available options is going to best meet the needs of your firm.

You will need to be proactive in making this decision – and addressing the requirements of the standard.

ISQM 1 requires each audit firm to design, implement and operate a system of quality management to manage their engagement quality.

Firms are required to:

- establish quality objectives;
- identify and assess the risks that could threaten the achievement of those objectives; and
- design and implement (then eventually evaluate and improve, if necessary) responses to mitigate those risks.

There is a shift to proactivity in terms of taking a risk-based approach to managing quality and to tailoring the firm's system of quality management (SoQM). Your firm needs to consider its nature and circumstances, its clients and staff, and identify what particular risks might impact you and your firm.

You'll also need to be proactive in determining which commercially available product to use to assist with implementation. You will need to look at what's available and you will need to decide what's best for your firm.

How much resource (mostly time) should I be dedicating to addressing the requirements of ISQM 1?

Obviously, the answer to this question will depend on the audit firm and even then, this is a 'how long is a piece of string' question. In short, the string is probably longer than you think it is.

Carrying out a risk assessment and then devising appropriate responses is not straightforward and will take time to do properly. However, all of the firms that I know that have already done this have found it a very useful exercise. Even firms that already had good quality systems found that they better understood why things were designed the way they were. Some audit firms have been able to make very significant improvements to how they do things.

In other words, the work to comply with ISQM 1 takes time, but is worth it.

This said, time to prepare is fast disappearing. Both international and UK versions of ISQM 1 are effective from 15 December 2022, meaning that an ISQM 1 compliant system of quality management needs to be designed and implemented by that date. It is also worth noting that ISQM 2 and the revised ISA 220 are effective for audits of financial statements for periods beginning on or after 15 December 2022.

QM RESOURCES

To assist firms on their QM journey, the faculty has created and collated specialist resources at a 'Quality management in audit firms' hub at tinyurl.com/AB-QM-Hub

It introduces the new QM standards and covers matters such as:

- ISQM 1 implementation;
- quality risk assessments;
- QM and resources obtained from service providers;
- the 'people factor' in your tailored approach to QM;
- QM benefits for smaller firms; and
- links to external resources from trusted sources such as the IAASB.

An ICAEW Insights special also focuses on QM at tinyurl.com/AB-QM-Insight



‘Remember, the auditors’ objective is to identify the risks of material misstatement in the financial statements, not weaknesses in the IT system’

How big an impact will the revisions in ISA 315 and ISA (UK) 240 have when they are implemented?

ISA 315 Revised *Identifying and Assessing the Risks of Material Misstatement* and ISA (UK) 240 Revised *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* are effective for periods beginning on or after 15 December 2021.

The extent to which the revisions will impact on a particular audit firm will depend upon how well prepared the firm is for the changes. Auditors already doing very good work on risk assessments and auditing for fraud will notice less change than those doing a less good job. But this is not the only factor.

The significance of the revisions in these standards has prompted some firms (and maybe more importantly, service providers) to overhaul other aspects of their audit approach, at the same time. This can make it appear as if these revised ISAs have created more change than they have. Indeed, one very popular proprietary audit system has chosen this moment to overhaul its file referencing system.

I am sometimes accused of spreading alarm and despondency when I warn of significant change ahead. That is not my intention. I am hoping that if auditors appreciate the magnitude of the changes for December 2022 year ends, they will put in place plans to be properly prepared.

The renewed focus on a good risk assessment and auditing for fraud should bring noticeable benefits in audit quality for many audit firms.

Revised ISA 315 has new requirements relating to the understanding of IT controls. How much needs to be done? Should we be engaging more with IT specialists?

I think this is an ISA revision that the audit profession might struggle with for some time. Space does not permit me to set out an A to Z on IT controls here, but I can briefly highlight some key considerations for auditors.

In short, there is a great deal more on the IT environment in the revised ISA 315, particularly IT general controls. Auditors will have to gain an understanding of information-processing activities and identify risks arising from the use of IT. They will

also need to understand the entity’s general IT controls that address such risks, including risks arising from use of IT applications.

Auditors therefore need to:

- identify all relevant IT applications;
- understand what they do and how they operate;
- understand the general IT environment that they operate in;
- assess related risks; and
- devise appropriate responses.

The key issue is, how far should auditors go? The answer is, far enough to properly assess inherent risk and (if necessary) control risk. This will require good judgement on the part of the auditor. Remember, the auditors’ objective is to identify the risks of material misstatement in the financial statements, not weaknesses in the IT system, per se.

The use of IT specialists is an interesting issue. On the largest audits (usually with the most complex IT systems), this is already happening, but it shouldn’t be necessary on most audits. After all, audits are done by auditors and what is described above is still directed at an audit of historic financial statements. It is not the audit of an IT system.

Nonetheless, when considering whether to use IT specialists, this requires an assessment of the complexity of the IT systems and whether the audit team has the necessary skills to address that complexity.

What should I be doing to prepare for revised ISA 315 and ISA (UK) 240?

I have addressed this question more fully in previous Q&As in *Audit & Beyond* (see tinyurl.com/AB-July22 on ISA 315, tinyurl.com/AB-June22 on the UK’s ISA 240, and tinyurl.com/AB-April22 on both ISAs). What I would like to add is that there needs to be a particular focus on training audit teams.

Typical lecturing on the subject in webinars or face to face is fine, but the subjects of risk assessment and auditing for fraud seem to be well suited to more interactive training. The use of practical case studies and discussion groups work particularly well to help auditors better understand the issues.

John Selwood, freelance lecturer and writer



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