

TECHNICAL UPDATES

The Audit & Assurance Faculty roundup of new and updated legal and regulatory changes and guidance

AUDIT AND ASSURANCE UK & IRELAND



ISA 540 (UK) December 2018

The Financial Reporting Council (FRC) has issued International Standard on Auditing (ISA) (UK) 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*. It covers the audit of expected credit losses in banks and reflects the increased importance and complexity of estimates in financial statements.

ISA (UK) 540 (Revised) is at tinyurl.com/AB-FRC540Revised

Its release follows the recent ISA 540 revision by the International Auditing and Assurance Standards Board (IAASB). The FRC strongly supported the development of this standard.

BANK AUDIT December 2018

The FRC is consulting on updates to its Practice Note (PN) 19 on the audit of banks and building societies, an

area where the FRC has called for improved quality.

The proposals require auditors to apply a higher benchmark when looking at the risk assessment procedures and disclosures of banks.

The consultation reflects findings from the FRC's audit inspection work covering bank audits, which were covered in public reports in June 2018. The consultation period on the FRC's proposed updates to PN 19 closes at 5pm on 8 March 2019.

A copy is at tinyurl.com/AB-FRC PN19

AUDITORS' WORK ON THE FRONT END OF ANNUAL REPORTS December 2018

Auditors' work on the information in the front end of company annual reports, outside of the financial statements, does not meet auditing standards consistently, according to an FRC Audit Quality Thematic Review (AQTR).

The FRC recognises that inconsistency in the extent and quality of the work partly reflects the non-prescriptive requirements in audit standards. But it also notes that firms' own guidance to their auditors also lacks prescription,

which has led to varying approaches being taken to this work, even by different audit teams within the same firm.

While the FRC identified instances of good practice in the audits that it reviewed, it also noted there were too many instances where insufficient work was performed to support the statements made by auditors in respect of other information (OI) in their audit reports.

To improve the quality and consistency of their work on OI, the FRC expects auditors to:

- undertake more targeted procedures, based upon more prescriptive guidance from audit firms;
- place greater emphasis on their review of key non-financial information;
- increase their scepticism and pay more attention to the completeness of information, particularly in relation to principal risk disclosures and their linkage to viability statements;
- require boards to prepare, on a timely basis, appropriate documentation to support key areas of the OI such as the viability statement; and
- assign staff to OI reviews who have the experience and knowledge to identify potential material misstatements and inconsistencies.

The AQTR Other Information in the Annual Report is at tinyurl.com/AB-FRC-ThematicReview

PRACTICE NOTES 25 AND 27 December 2018

The FRC has withdrawn PN 25 *Attendance at Stocktaking*, and PN 27 *The Audit of Credit Unions in the United Kingdom*.

PN 25 was last revised in February 2011 and much of the content is covered by application material in ISA (UK) 501 *Audit Evidence - Specific Considerations for Selected Items and other ISAs (UK)*.

Practice Note 27 was last revised in May 2011 and relates to a small sector of non-public interest entities which the FRC no longer considers it necessary to provide guidance on.

Learn more at tinyurl.com/AB-FRC-Withdraw2527

CLIENT ASSET STANDARD December 2018

The FRC is consulting on the effectiveness of the Client Asset Audit Standard (CASS Standard) which was introduced in 2015.

The CASS was developed both to support Financial Conduct Authority regulatory activity and oversight of the CASS sector, and to provide a principles-based framework to strengthen audit quality in response to some high profile and well publicised failures.

Now that the standard has been used by auditors for three years, the FRC is seeking stakeholder feedback to determine whether further measures are needed to support audit quality in this area.

As part of the consultation, the FRC would like to hear whether it should develop a monitoring regime for better assessing the quality of CASS audit work undertaken in the UK. Feedback is requested by 4 March 2019.

Learn more at tinyurl.com/AB-FRC-ClientAsset

FRC REVIEW OF 2016 UK AUDITING STANDARDS

November 2018

The FRC is consulting with stakeholders to determine how effective the 2016 changes to ethical and auditing standards have been in delivering high quality audit. The consultation is also asking whether further steps are needed to strengthen auditor independence, reduce conflicts, improve quality and preserve trust in independent audit.

The standards were introduced to support the implementation of new UK legislation in June 2016 addressing the requirements of the European Union Audit Regulation and Directive.

Feedback and responses to the FRC's review questions should be sent by email to AAT@frc.org.uk and marked for the attention of James Ferris. Feedback should be received by 5pm on 15 February 2019. The call for feedback is at tinyurl.com/AB-FRC-ReviewFeedback

AUDIT THEMATIC REVIEWS 2019 - 2020

November 2018

The FRC has announced that it will supplement its routine audit quality review (AQR) monitoring programme with two thematic reviews in 2019-20. The topics will be:

- *Audit Quality Indicators (AQIs)*: An assessment of the development and use of AQIs by UK audit firms. This review started during the 2018/19

inspection programme and will be delivered in 2019/20.

- *The use of technology in audits*: The FRC will review the progress of firms' use of data analytics, which it first reported on in January 2017, considering how the use of technology has widened beyond data analytics and the potential impact upon audit quality.

As part of its audit monitoring programme for 2019/20 the FRC intends to pay particular attention to auditors' work on:

- Going concern and the viability statement;
- The Other Information in the Annual Report;
- Long-term contracts; and
- The impairment of non-financial assets.

Learn more at tinyurl.com/AB-FRC-Review1920

FINANCIAL REPORTING UK & IRELAND

FRS 102 FACTSHEETS

December 2018

The FRC has issued a suite of staff factsheets on aspects of FRS 102, including the 2017 triennial review.

The factsheets are intended to assist stakeholders by highlighting certain requirements of FRS 102. In addition to the triennial review, subjects covered include: business combinations; financial instruments; illustrative statements of cash flows; property - fair value measurement; and transitions for FRS 102.

The factsheets are at tinyurl.com/AB-FRC-102Factsheets

SMALLER COMPANY REPORTING

November 2018

Smaller listed and aim quoted companies should provide more information and more specific disclosures on some aspects of their corporate reporting, according to an FRC report.

The FRC reviewed the reports and accounts of 40 smaller listed and AIM quoted companies to consider:

- Alternative performance measures (APMs) and Strategic Reports;
- pension disclosures;
- accounting policies, including critical judgements and estimates;
- tax disclosures; and
- cash flow statements.

While the review identified some better examples of smaller companies' disclosures, it also identified several areas requiring improvement. Companies should provide more specific disclosures of significant accounting judgements and more quantitative information on key sources of estimation uncertainty.

The FRC also found that companies could do more to ensure that the classification of cash flows complies with IAS 7 *Statement of Cash Flows*, and that all sections of the report present APMs in a balanced and transparent manner.

Learn more in *Corporate Reporting Thematic Review - Reporting by Smaller Listed and AIM Quoted Companies*, at tinyurl.com/AB-FRC-SmallReport

CORPORATE GOVERNANCE UK

CORPORATE GOVERNANCE PRINCIPLES

December 2018

The FRC has issued *The Wates Corporate Governance Principles for Large Private Companies* (December 2018), providing a framework that will help large private companies meet legal requirements and also promote long term success.

The Wates Principles encourage these companies to adopt a set of key behaviours to secure trust and confidence among stakeholders and benefit the economy and society in general.

The principles are part of a number of changes made this year to the UK corporate governance framework. They have been developed by a coalition established by the FRC and chaired by James Wates CBE.

The Wates Principles are at tinyurl.com/AB-FRC-Wates

AUDIT AND ASSURANCE INTERNATIONAL

AGREED-UPON PROCEDURES

November 2018

The IAASB is seeking feedback on its Exposure Draft (ED) on proposals to redraft International Standard on Related Services (ISRS) 4400 (Revised) *Agreed-Upon Procedures Engagements*.

To ensure that the IAASB's standard on AUP engagements remains relevant, the IAASB proposes to strengthen key concepts in the standard, including:

- the role of professional judgement in an AUP engagement;
- disclosures relating to the practitioner's independence;
- guidance on appropriate or inappropriate terminology to describe procedures and findings in AUP reports;
- the use of a practitioner's expert in an AUP engagement; and
- restrictions on the distribution and use of the AUP report.

The deadline for providing responses is 15 March, 2019.

The ED is available at tinyurl.com/AB-IFAC-4400

**CENTRE FOR
AUDIT QUALITY**



CRITICAL AUDIT MATTERS

December 2018

Robust communication and planning will be required to effectively determine and communicate critical audit matters (CAMs) in the updated auditor's report, according to the Center for Audit Quality (CAQ).

Its recent publication *Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example* presents early lessons learned from 'dry runs' that certain CAQ member firms have conducted on CAMs.

The publication examines key takeaways from testing CAMs including:

- determining which matters are CAMs by applying a principles-based approach and significant auditor judgement;
- the importance for the auditor to communicate with management and the audit committee early and often in the process of identifying and drafting CAMs;
- the need for auditors, preparers, audit committees, and others to plan accordingly for the time it will take to determine and draft CAMs; and;
- noting that drafting CAMs can be challenging.

It also contains an illustrative example of a CAM, along with a set of new questions to foster dialogue and understanding regarding the impact that CAMs may have throughout the audit.

The publication is at tinyurl.com/AB-CAQ-CAMs

**EMERGING TECHNOLOGY -
HELP FOR AUDIT COMMITTEES**

December 2018

The CAQ has launched a resource to help audit committees with their oversight of financial reporting as emerging technologies take hold.

The publication, *Emerging Technologies: An Oversight Tool for Audit Committees*, provides a framework and questions that audit committees can ask senior management and auditors.

The tool has five key components to help audit committees:

- Understand the Company's Emerging Technology Strategy and Any Specific Technologies Contemplated.
- Understand Management's Risk Identification and Assessment Process.
- Understand the Control Activities in Place that Respond to the Identified Risks.
- Establish Information and Communication Protocols.
- Monitor Emerging Technology Activities.

In each category the publication provides questions to spark dialogue among audit committees, auditors, management and others.

The tool also highlights how two technologies, artificial intelligence and robotic process automation, are gaining significant traction in the financial reporting environment.

It can be accessed at tinyurl.com/AB-CAQ-EmergingTech

**INTERNATIONAL
ACCOUNTING EDUCATION
STANDARDS BOARD**



TECHNOLOGY AND SCEPTICISM SKILLS

December 2018

The International Accounting Education Standards Board (IAESB) is seeking comment on its proposed changes to International Education Standards (IESs) that address information and communications technologies (ICT) and professional scepticism skills.

Proposed Revisions to IESs 2, 3, 4, and 8 – Information and Communications Technologies and Professional Scepticism seeks to strengthen those skills to improve the quality of financial reporting and auditing and develop competence to meet ICT's disruptive potential. It also reflects significant stakeholder input, including findings from IAESB's prior

consultation on future strategy and priorities, and other engagement work with stakeholders including insights from surveys, academic and professional literature and roundtables.

The deadline for responses is 4 March, 2019. The proposed revisions are at tinyurl.com/AB-IFAC-ExposureRev

**ACCOUNTANCY
EUROPE**



GDPR IMPLICATIONS FOR AUDITORS

December 2018

The Accountancy Europe paper *GDPR: Implications for auditors* aims to clarify the role of auditors under General Data Protection Regulation (GDPR).

The paper looks at the distinction between auditors as data controllers or data processors.

It concludes that in principle, statutory auditors qualify as data controllers. For non-statutory audit services, it encourages practitioners to analyse the processing of personal data on a case-by-case basis to determine whether they will be considered data controllers or data processors.

It also advises that respective roles and responsibilities should be stated in the engagement letter.

The paper is at tinyurl.com/AB-GDPRStatAudit

ICAEW



A number of technical audit-related Brexit guidance documents are now available from ICAEW.

Learn more on page 4 and by visiting tinyurl.com/AB-ICAEW-BrexitTech ●



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