

Looking ahead – hot topics and tips for 2021 audits

30 NOVEMBER 2020

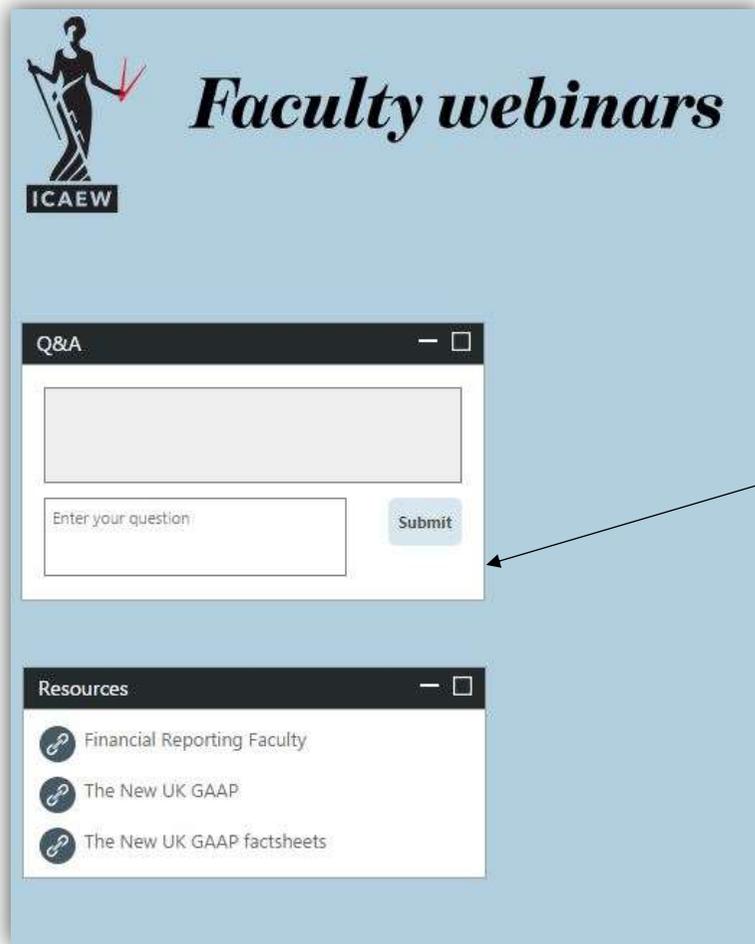
PETER HERBERT

Today's presenters



Peter Herbert
Director
Insight Training

Ask a question



The screenshot shows the ICAEW Faculty webinars interface. At the top left is the ICAEW logo, featuring a figure holding a scale and a sword, with the text 'ICAEW' below it. To the right of the logo is the text 'Faculty webinars'. Below this is a 'Q&A' section with a large text input box and a 'Submit' button. Below the 'Q&A' section is a 'Resources' section with three links: 'Financial Reporting Faculty', 'The New UK GAAP', and 'The New UK GAAP factsheets'. An arrow points from the 'Submit' button to the text 'Ask a question' on the right.



Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

Ask a question

Type your question into the question box then click submit.

[Download resources here](#)

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Continued impact of COVID-19

Impact of Brexit

New(ish) FRC Ethical Standard

Revised ISAs

ICAEW 2020 Monitoring Report

Questions

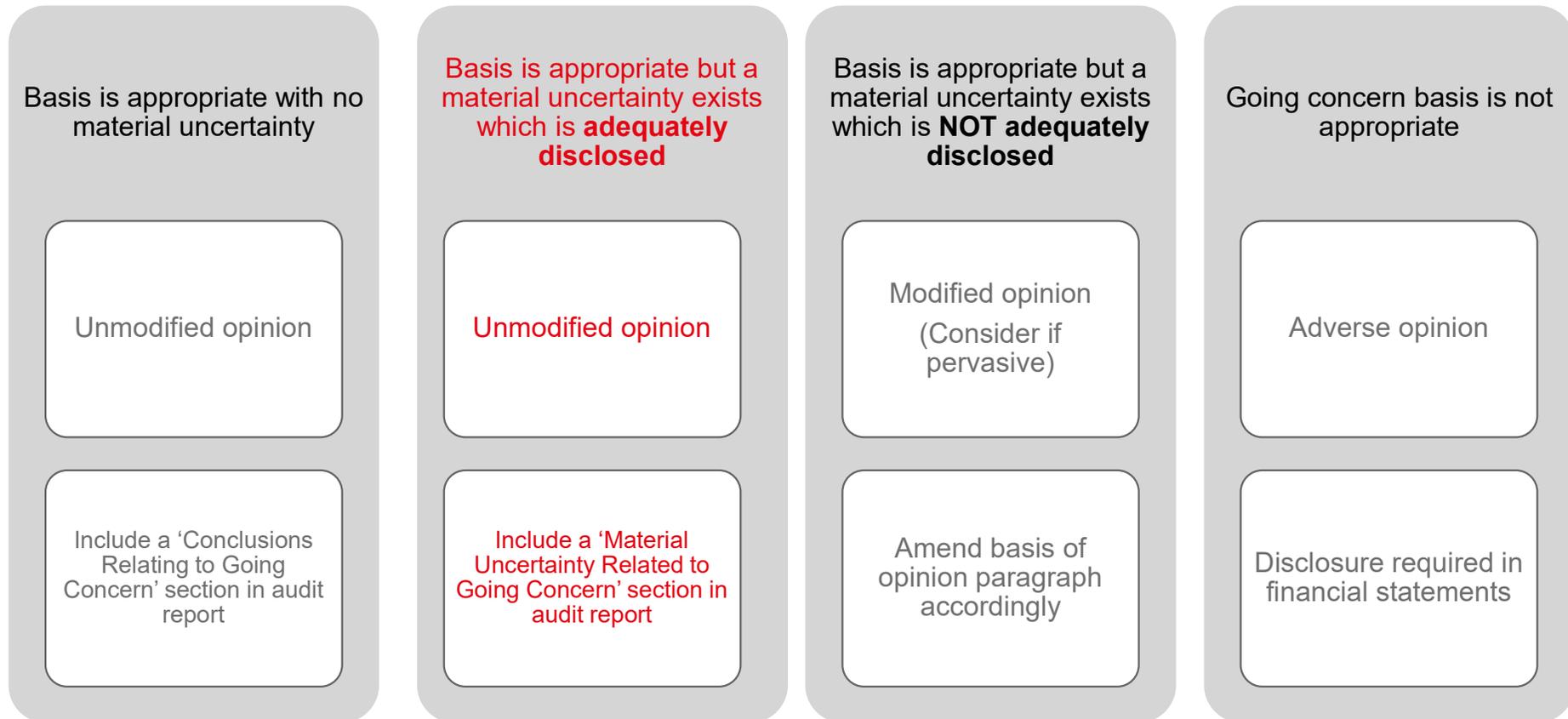


Continued impact of COVID-19

Financial reporting



Going concern – ‘start with the end in mind’



‘Risk – Rigour – Report’

Key considerations



Need for projections



12 months from the date of signing



Client 'ownership'



Validation and challenge



Letters of support



Second partner review?

• POLL 1

Loan covenant compliance

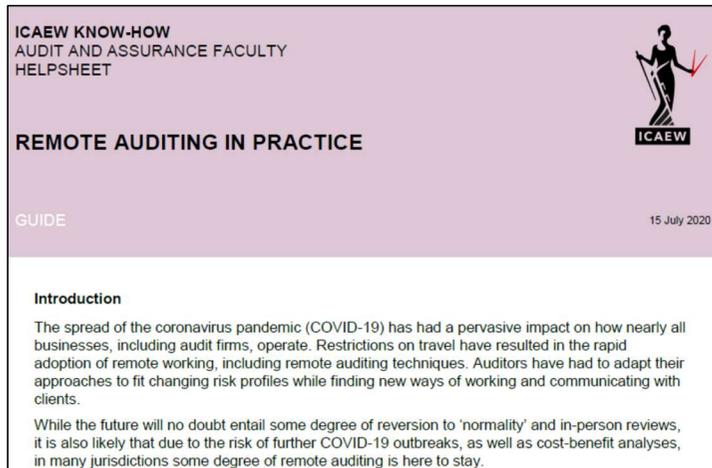
A client is in breach of a loan covenant at the year end. What are the accounting implications of this?

Loan classification?

Disclosure of breach (paragraph 11.47 FRS 102)?

Going concern?

Remote auditing in practice



Audit administration

Audit approach and risk assessment

Remote team working

Professional scepticism, fraud and error

The 'fraud triangle'



Fraud

‘The Parmalat case involved a forged bank confirmation of balances of over \$5bn with a US Bank. No complex technology was involved. It appears that the fraudulent bank confirmation was created with scissors, tape and a scanner’

Core Auditing Standards – Katharine Bagshaw & John Selwood

Making it work



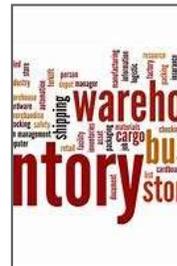
Use of video and screen sharing



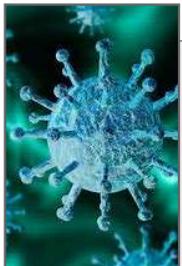
Combination of scanned & original documents



Third party evidence



Stocktake attendance – and follow up



Alert for frauds related to COVID-19



Tell the story on the file

• POLL 2



Impact of Brexit

Brexit

Audit implications



Key date = 31 December 2020
'Implementation Period Completion
Day

Auditors with EU qualifications

Application of s479A CA06 within groups
with EEA parent

Access to component auditor
information

Commercial and operational impacts



New(ish) FRC Ethical Standard

FRC Ethical Standard



Issued December 2019

Effective 15 March 2020

‘Permitted’ non audit services for PIE audits
& audits of Other Entities of Public Interest

Transitional rules

• POLL 3

Things to watch for



Ethical Standard breaches

- Bi-annual report to ICAEW



Non-audit services appraisal

- Engagement partner must appraise before work carried out



Contingent or success based fee arrangements

- Blanket prohibition



Long association

- Safeguard mandatory beyond 10 years



Significant affiliates of listed entities

- Strict restriction on services that can be provided



Revised ISAs

Key changes to ISAs (UK)

ISA (UK) 700

- Forming an opinion and reporting

ISA (UK) 570

- Going concern

ISA (UK) 540

- Auditing Accounting Estimates and Related Disclosures

Periods commencing 15 December 2019

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ISA (UK) 700

‘The auditor’s report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud’

Relevant laws and regulations?

Specific examples?

Approach – including fraud specifics?

Inherent limitations?

ICAEW guide

ISA (UK) 570

Standard

 Financial Reporting Council

September 2019

ISA (UK) 570 (REVISED SEPTEMBER 2019)

Going Concern

Watch for changes to proprietary systems

Differing views on substantive impact

Has COVID-19 been a wake up call?

Audit report wording changes

More significant wording changes for PIEs, listed entities and OEPIs

New wording – non-PIEs, non-listeds etc

Nothing to report

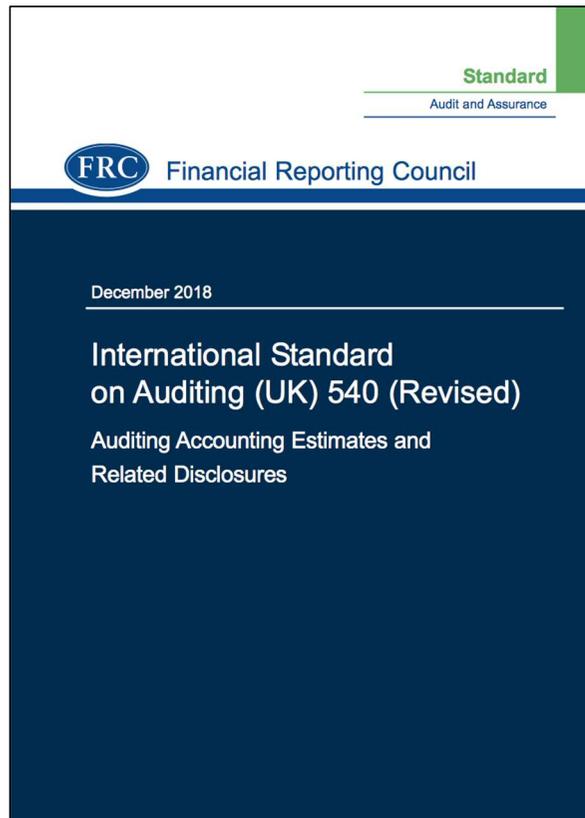
Conclusions related to Going Concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the [entity]'s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

ISA (UK) 540



Watch for changes to proprietary systems

Most impactful of the changes

Spectrum of inherent risk

Professional scepticism and contradictory evidence

Implications for planning and evidence – and possibly audit fees

Risk assessment

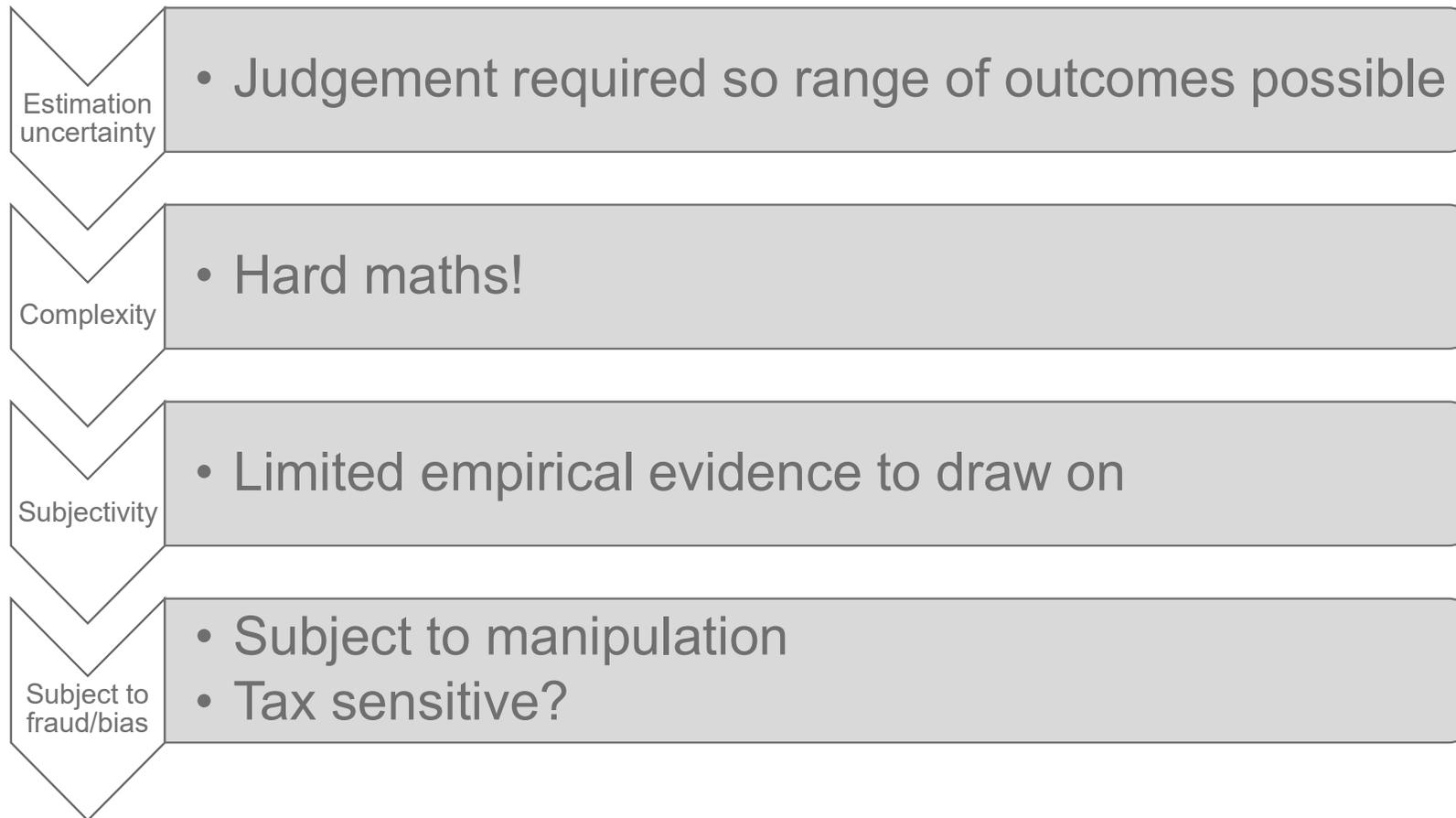


Accounting entries and disclosures



Spectrum of inherent risk

Risk assessment



Scenario

Company A is an investment property company. It is highly geared with loan covenants linked to property values.

Yield-based valuations are carried out annually by external valuers.

Estimation uncertainty?

Complexity?

Subjectivity?

Bias?

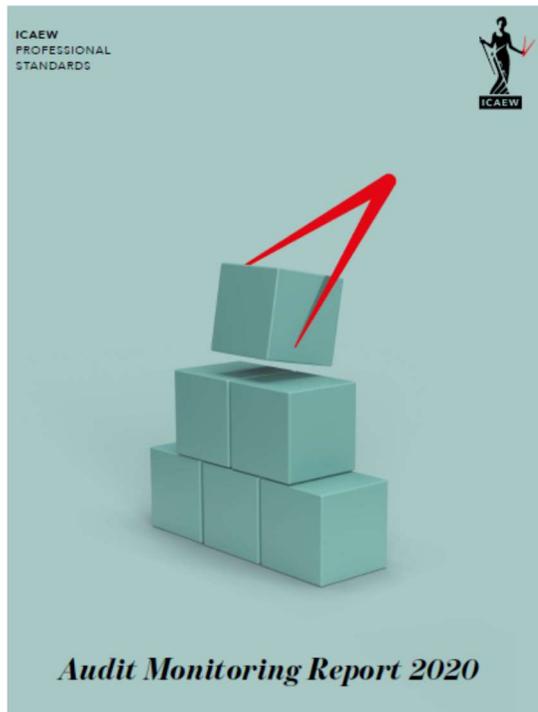
Need for contradictory evidence?

How can this be achieved?



ICAEW guidance

ICAEW 2020 Monitoring Review



Feedback on audits reviewed during 2019

‘Audit quality under the spotlight’

Key findings

Top 3 most common findings (ISAs)

Tools for improving performance

Problem areas

Good practice examples

Going concern

- Consideration of worst case scenarios when assessing forecasts

Long term construction contracts

- Attendance by RI at contract meetings

Property valuations

- Tailored templates when relying on client appointed experts

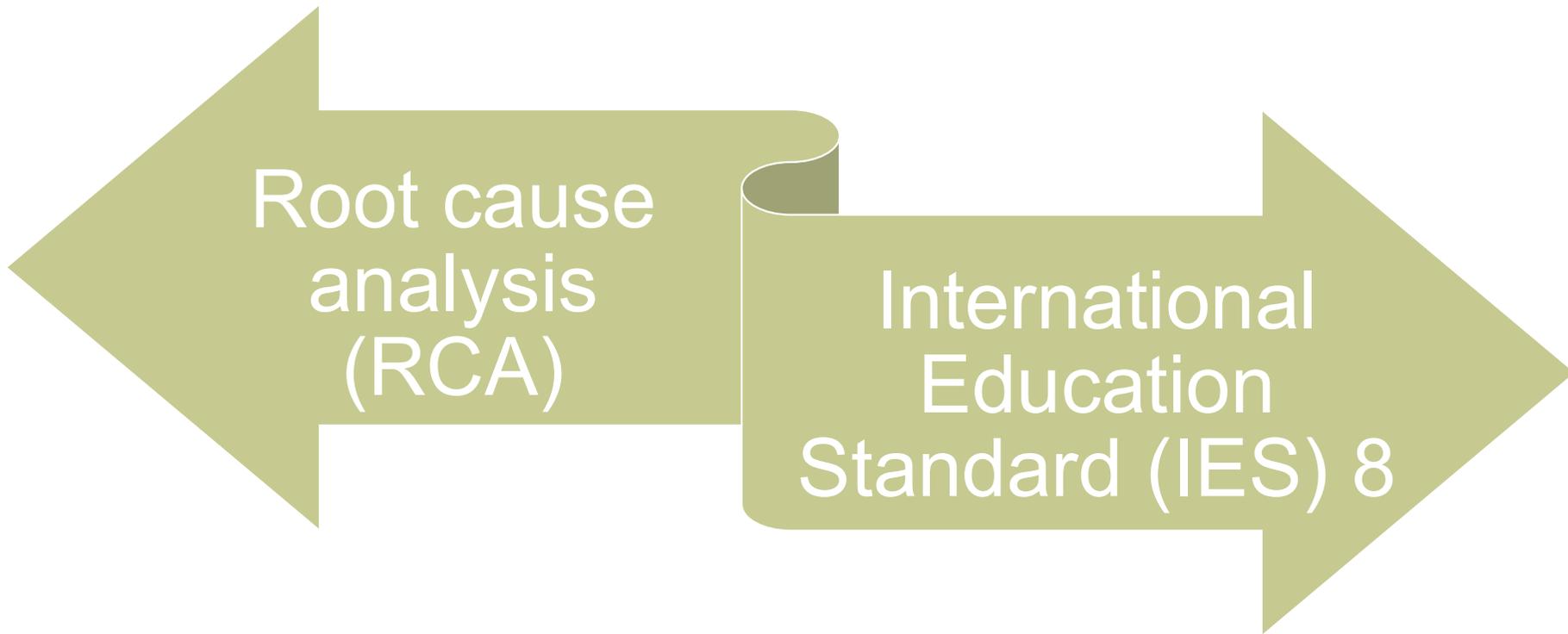
Poor documentation

- Memoranda covering judgements – evaluation of contradictory /conflicting evidence

Effective review

- In smaller firms hot file review on unusual, complex or high risk audits

Don't forget!





Any questions?

Future webinars

For details, please visit [icaew.com/aafevents](https://www.icaew.com/aafevents)



07 December Managing and ICAEW audit monitoring visit

11 January Maintaining Wellbeing during audit busy season

04 February Brexit and audit

Thank you for attending



Please take the time to fill out our short survey:
[Survey link](#)



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