



Hot Topics & Tips for 2022 Audits

1 November 2021

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Tip 1

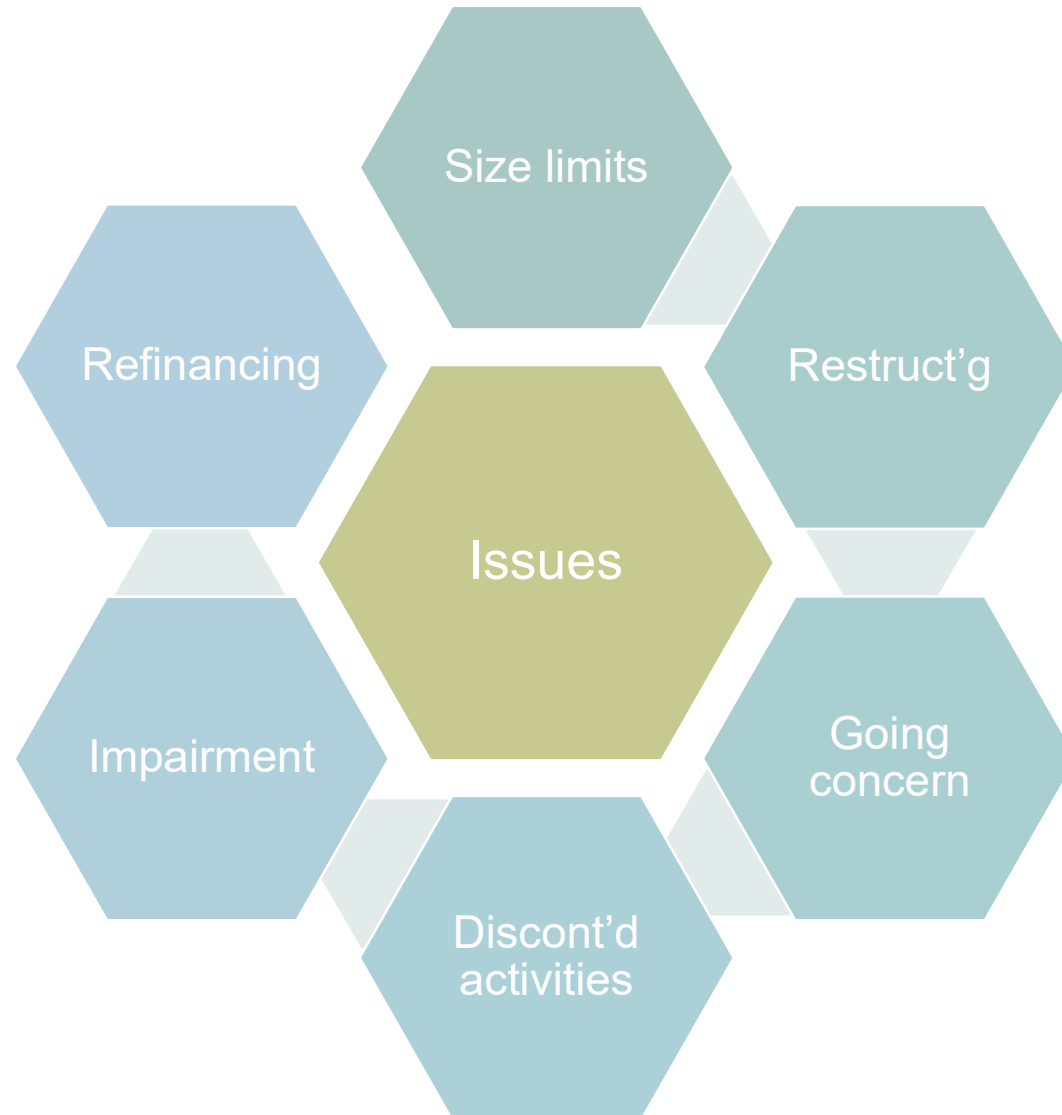
Don't lose sight of pandemic related accounting issues

Warren Buffett



“It’s only when
the tide goes
out that you see
who’s swimming
naked”

Key considerations



Loan contract modifications



Where contractual terms of debt are modified (renegotiated or altered), treat the transaction as an **extinguishment** of the original financial liability and the recognition of a new financial liability where the modification is **substantial**

FRS 102 – para 11.37

Where the modification of terms is **not substantial**, recalculate the carrying amount of the liability by computing the PV of estimated future cash flows at the financial instrument's **original effective interest rate**. Recognise an adjustment in profit or loss

FRS 102 – para 11.20

Substantial modification?

Quantitative test

- Is the PV of the modified cash flows at least 10% different to the PV of the original cash flows? (IFRS 9 B3.3.6)

Other considerations

- Significant change in principal lending?
- Significant change in security?
- Significant change in covenant terms?
- Significant change in interest rate?

Treatment of costs

- Where the modification is substantial ...
 - Breakage fee re existing loan is expensed
 - Incremental cost of new loan is deducted from carrying amount

Guidance

- ICAEW FRF help sheets (UK GAAP & IFRS)



Tip 2

Keep fighting the fight on audit ethics

Scenarios



Your firm has been asked to help an audit client with a sale of the business. You will only be paid if the sale happens. Is this ok?



You are your firm's audit compliance principal. An EQCR which should have been performed because of a long association threat didn't happen. What is the consequence?



Tip 3

Watch for changes in sampling methodologies

Frequently asked question ...

Our audit methodology has removed maximum sample sizes and is now throwing out huge samples, especially where we just perform tests of detail.

Is this right – and what should we do about it?

FRC feedback



“We raised issues where we saw limited samples employed in significant risk areas”

“Limited sample sizes also prevent audit teams from exploring more effective ways of obtaining audit evidence”

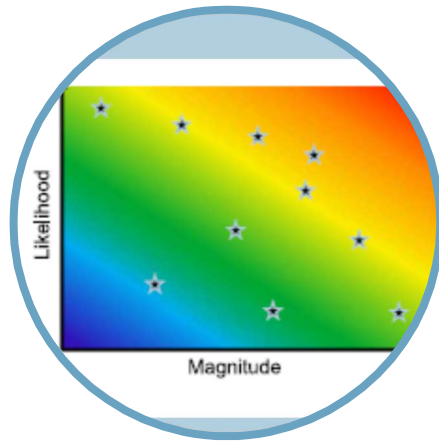
“We encourage firms to revisit their training methodologies and practical applications around controls testing”



Tip 4

*Be prepared for ISA (UK) 315
revised*

What to do?



p/c 15
December
2021

Challenges

Inherent risk factors

Spectrum of risk

More on design and
implementation of
controls

Specific guidance on IT
controls

Stand back 'second
pass'

Tips

Watch the AAF
webinars!

Engage with
methodology providers

Care re short
accounting periods

Timetable training

Easy wins now?!



Tip 5

*Start preparing for ISQM –
and don't panic!*

Overview of ISQM

ISQM 1

Replaces
ISQC1 focusing
on system of
Quality
Management

ISQM 2

New standard
setting out
eligibility,
appointment
and
responsibilities
of EQCR

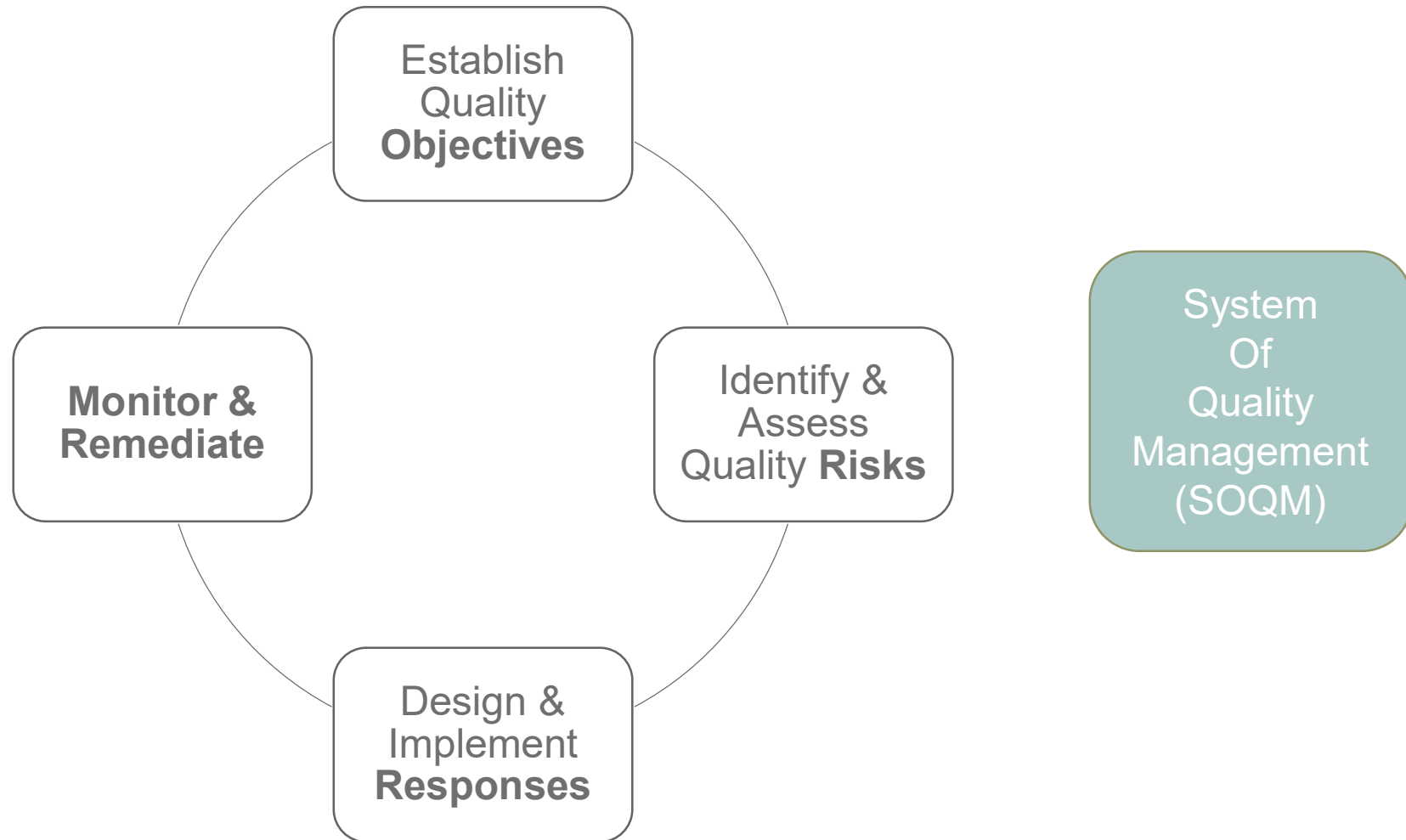
ISA 220

Auditor's
responsibilities
regarding
quality
management at
the engagement
level

Effective 22 December 2022

Monitoring reviews and activities – one year later

Quality Risk Assessment Process



Key considerations



Predetermined quality objectives exist



Consider early risk assessment



Iterative process



Easy wins – RCA??



Help is at hand!



Tip 6

*Keep working on IES 8
compliance*

New RI application form

5 INTERNATIONAL EDUCATION STANDARD (IES) 8, PROFESSIONAL COMPETENCE FOR ENGAGEMENT PARTNERS RESPONSIBLE FOR AUDITS OF FINANCIAL STATEMENTS (REVISED)

Under IES 8, professional accountants performing the role of an engagement partner responsible for audits of financial statements are required to undertake CPD that develops and maintains the professional competence required for this role. In considering your application for RI status, we will assess your record of CPD carried out in the last 12 months (and audit experience form, if required) against the competencies required under IES 8. We may ask you to provide more information.

If you cannot provide evidence that you have met the IES 8 competencies your application may not be successful, or may only be approved subject to conditions.

Please confirm that:

a. You meet the specific competencies required of an engagement partner responsible for audits of financial statements as set out in IES 8; and

YES

b. If your application for RI status is approved, you will continue to meet these competencies through your ongoing CPD training plan.

YES

Background note

IES 8 is an education standard issued by the International Federation of Accountants' (IFAC's) International Accounting Education Standards Board (IAESB). IFAC is a global standard-setter for the accountancy profession and ICAEW is a founder member body of IFAC. IFAC has issued a suite of standards in the fields of auditing, education, ethics and the public sector. ICAEW - as with other UK recognised supervisory bodies for audit - has a membership obligation to promote compliance with these standards, including IES 8. The appropriate compliance juncture with regard to IES 8 is when an individual and their firm are applying for RI status.

The full text of IES 8 may be viewed on IFAC's website: [IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements \(Revised\) | IFAC](#)

Support materials from IFAC on IES 8 may also be viewed here: [IAESB Staff Questions & Answers Publication | IFAC](#)

IES 8 Competency areas

Technical Competence

(a) Audit

(b) Financial accounting and reporting

(c) Governance and risk management

(d) Business environment

(e) Taxation

(f) Information technology

(g) Business laws and regulations

(h) Finance and financial management

Professional Skills

(i) Intellectual

(j) Interpersonal and communication

(k) Personal

(l) Organisational

Professional Values, Ethics, and Attitudes

(m) Commitment to the public interest

(n) Professional scepticism and professional judgment

(o) Ethical principles



Tip 7

Listen to the voices!

Disciplinary cases



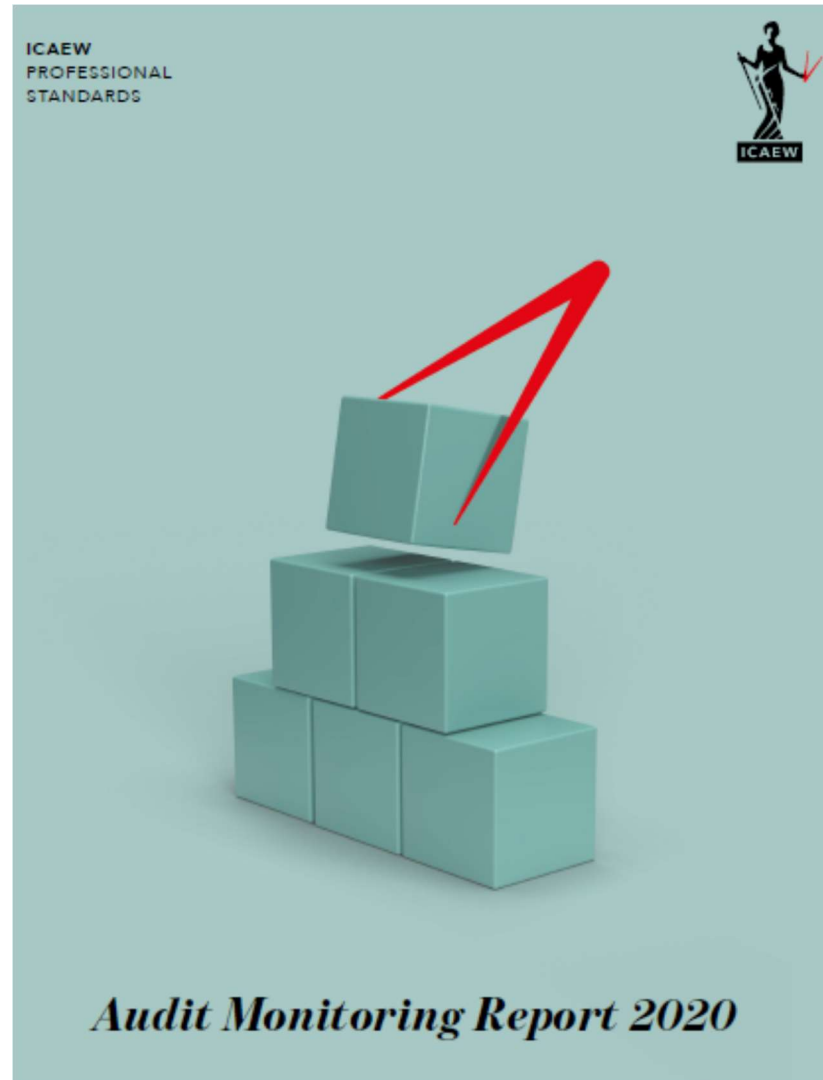
Associated British Engineering
Inventory
Journals
Revenue recognition
RI/manager oversight



Patisserie Valerie
Sales cut off
Bank
Journals
Fixed assets

[News | Financial Reporting Council \(frc.org.uk\)](http://frc.org.uk)

ICAEW Monitoring Review



Wrapping up

1

Don't lose sight of pandemic related accounting issues

2

Keep fighting the fight on audit ethics

3

Watch for changes in sampling methodologies

4

Be prepared for ISA (UK) 315 revised

5

Start preparing for ISQM – and don't panic!

6

Keep working on IES 8 compliance

7

Listen to the voices!

