

Looking ahead – hot topics and tips for 2023 audits

7 NOVEMBER 2022

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Today's presenters



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Ask a question



The screenshot shows a mobile application interface for asking questions. At the top, it says 'Q&A'. Below that, there is a section for a question and answer. The question is 'What happens when I raise my hand?' with a timestamp of 18:03. The answer is 'I can take you off of mute.' with a timestamp of 18:04. Below the answer is a large empty text input field with the placeholder text 'Please input your question'. At the bottom left, there is a checkbox labeled 'Send Anonymously'. At the bottom right, there is a blue button labeled 'Send'.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

Contents

Tough times

International Standards on Quality Management

Revisions to ISA (UK) 315

Revisions to ISA (UK) 240

Top tips from QAD

Questions



Tough times

Tentative business welcome for Sunak amid deepening economic gloom

UK industry leaders hope for urgent steps from new PM to repair battered business confidence



📷 UK government borrowing costs fell on news of Rishi Sunak's victory as Conservative leader.
Photograph: Henry Nicholls/Reuters

Going concern

An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so

Not a going concern

- Alternative basis

Material uncertainty that casts significant doubt on going concern

- Disclose

Some uncertainty about going concern

- Disclose?
- FRC Guidance – 2009/ISA (UK) 570 para 20

No uncertainty about going concern

- No requirement for disclose
- Unless charity!

Source: FRS 102 Glossary of Terms

Other considerations

Front end

- Strategic Report – Risks and uncertainties
- Directors' Report – Financial instrument risk management

Impairments / Fair Values

- Change in market interest rates = impairment indicator
- Value in use and other discounted cash flow models
- Investment properties and other fair values

Long-term contracts

- Loss-making contracts? FRS 102.23.26

Derivatives

- Greater usage
- Bigger swings – materiality?

DB Pensions

- Fluctuation in liability
- Key assumptions include inflation and bond yields

Frequently asked question

All the information for the pensions notes comes from the actuary or pension scheme administrator. So surely, it's just a question of reconciling the figures to the report and we're done, right?!

Wrong!

Auditing pension liabilities

Auditing pensions figures - sponsor accounts

Contents

Part 1: Relationships and independence

Part 2: Auditor requests

Glossary

Auditors will often come across defined benefit pension scheme liabilities (or assets) on the balance sheets of entities that they audit. Defined benefit pension schemes are independent of the entities, and this has considerable implications for the audit of the entity.

Assess objectivity & competence of management's actuary

Assess actuarial assumptions used to determine liability

Consider accuracy & completeness of sources data

Perform work on roll forward (if applicable)

Test valuation and existence of investment & other assets

Evaluate internal controls at sponsor entity/ trustee service organisations

Consider completeness/accuracy of pensions disclosures

Obtain information on 'special events'

Auditing pensions figures – sponsor accounts |

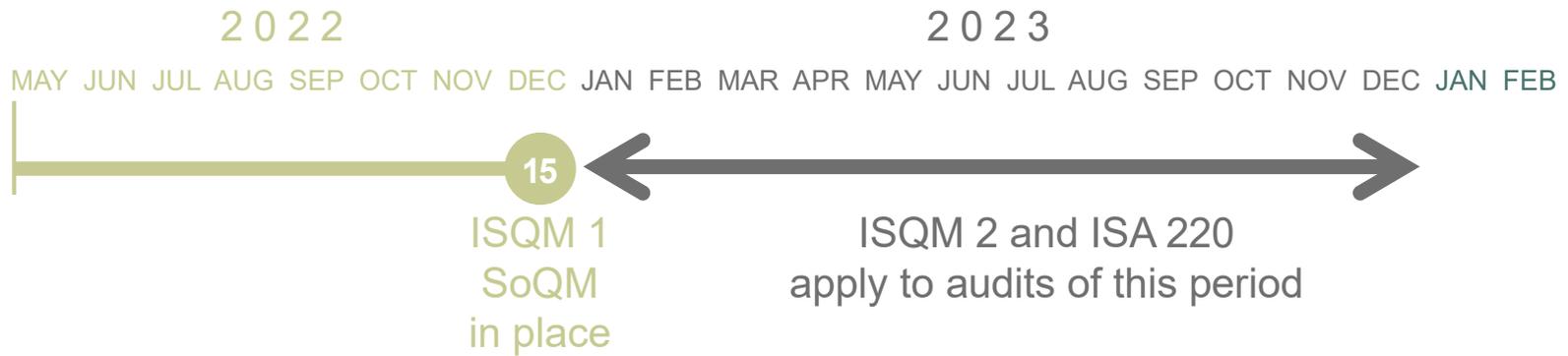
ICAEW



International Standards on Quality Management

15 DECEMBER 2022

Timeline



What you'll need ...



Existing policies & procedures



ISQM 1



Compliance reviews



Professional body feedback

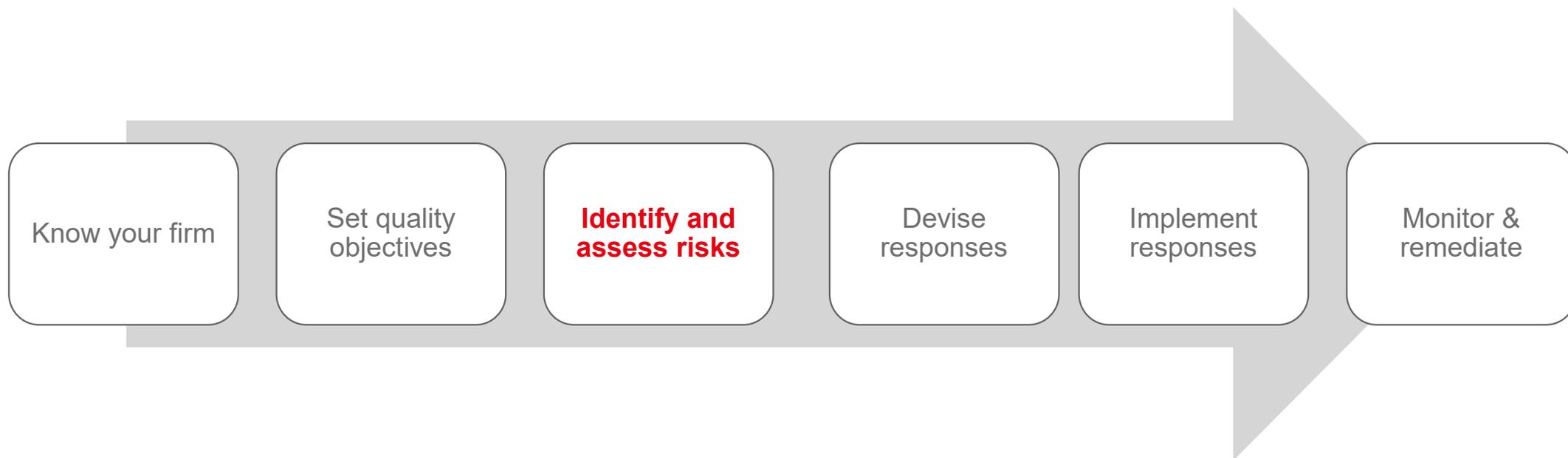


IAASB 1st time implementation guide

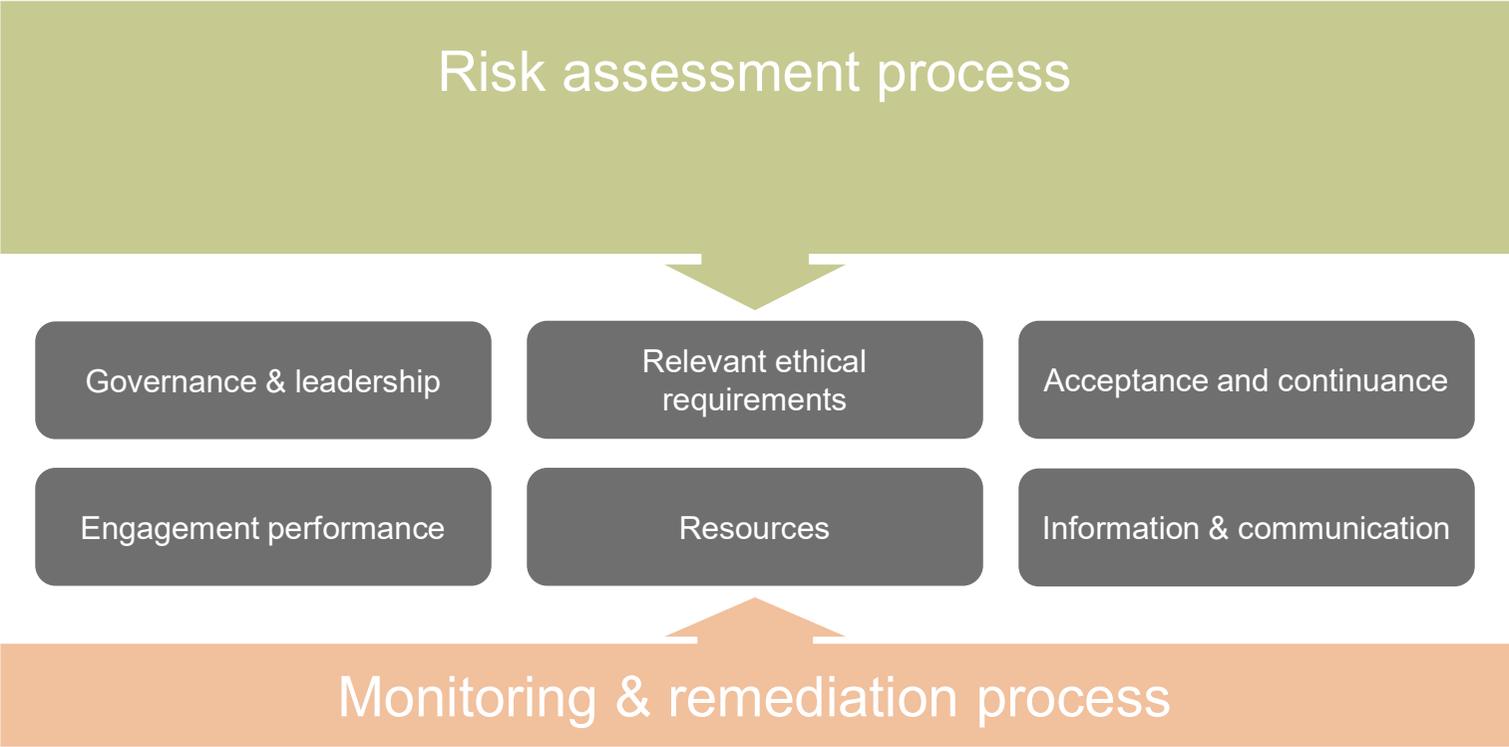


Time to talk – and listen!

Implementation timeline



Components & processes



Governance & leadership

Recent structural changes

- Impact on quality
- Cultural changes

Multiple offices/Network

- Consistency of quality
- 'Satellite' offices?

Role & style of CEO/managing partner

- Force for the good – or liability?!

Responsibility for audit quality?

- ACP – experience & gravitas?
- Audit culture of the firm?

Number and role of RIs

- Dabbler risk!

Strategic objectives

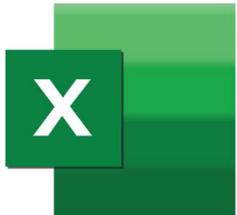
- Is audit a priority – or a loss leader?
- Who's making the case for audit quality?!

Appraisal of staff and partners

- How are managers **and partners** appraised?

Documentation

What it might look like ...



Know your
firm
information

Quality
objectives

Identified
quality risks
(hyperlinked)

Action plan
responses
(hyperlinked)

Policies &
procedures

ISQM 1 implementation: a sole practitioner approach

Author: ICAEW Insights
Published: 06 Oct 2022

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The deadline for the design and implementation of a firm's system of quality management (SoQM) under ISQM 1 is fast approaching. Peter Hollis, of Hollis and Co Ltd, shares his approach to implementation.

LATEST VIEWPOINTS

- [1 Chart of Workfor](#)
- [2 Ignoring](#)

[ISQM 1 implementation: a sole practitioner approach | ICAEW](#)



Revisions to ISA (UK) 315

PERIODS COMMENCING 15 DECEMBER 2021

Opportunity knocks?!

‘Our audit methodology has removed maximum sample sizes, which is now throwing out huge samples, especially where we just perform tests of detail. Is this right – and what should we do about it?’



Five things to watch for ...

1.

- Individual inherent risk factors inform assessment of significant audit risks

2.

- Potential need to assess inherent and control risk for individual assertions

3.

- Explicit requirements re processes & control activities (including IT)

4.

- Need to properly assess risk considering magnitude & likelihood

5.

- Need for 'standback assessment'

... changes to proprietary audit system

Use of IT

You audit a small boutique hotel operator. Hotel bookings are captured using a cloud-based hotel front desk software system called Datalynx. This is a well-known, off the shelf system that is used industrywide. Bookings are made via the company's website and through reservation sites such as Bookings.com and Hotels.com. Datalynx also interfaces with the EPOS system used in the bar and restaurant. Datalynx transactions are released to SAGE but only once, end of day reconciliations are reviewed and signed off by the finance manager.

Off the shelf system

Limited scope to change source code?

Risk re interface with reservation sites

Access controls important re-room rates

Data security important in view of GDPR considerations

Potentially strong reconciliation controls?

ISA (UK) 315
Appendix 5

Less risky applications

Standalone

Insignificant volume of data

Simple functionality

Transactions supported by original hard copy documentation

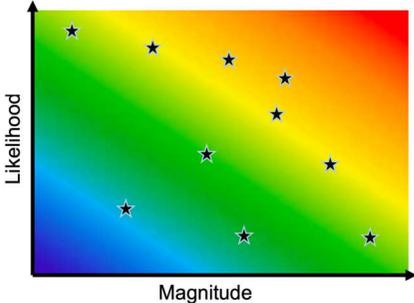
More risky applications

Interfaced applications

Significant volume of data
(transactions)

Complex functionality because application automatically initiates transactions and complex calculations underlie transactions

Significant risks



★ Risk of material misstatement

Evaluate design and implementation of related controls (315.26)

Gather more persuasive audit evidence (330.7b)

Communicate risk to TCWG (260.15)

More involvement by group audit partner/proactive direction of component auditor (600.30,31)

Timely review by engagement partner (220.17,A9)



Revisions to ISA (UK) 240

PERIODS COMMENCING 15 DECEMBER 2021

ISA (UK) 240 revised

‘ISA (UK) 240 appears to be a balancing act between managing, or possibly lowering, expectations whilst seeking to avoid going so far as to affect significantly users’ perceptions as to the value of audit. The messaging in this standard is therefore somewhat ambiguous, in my view, contributing to a lack of clarity as to what exactly is expected of auditors in this area. Indeed, a number of respondents called for auditors’ responsibilities to be clarified, whether or not they believed there is or may be a case for increasing them.’

Sir Donald Brydon quoted in FRC Feedback Statement on ISA (UK) 240

Professional Scepticism

What is it?

Not being too trusting of the client

Being nosy?!

Looking for contradictions

Asking the right follow-up question

What are the inhibitors?

Poor risk assessment?

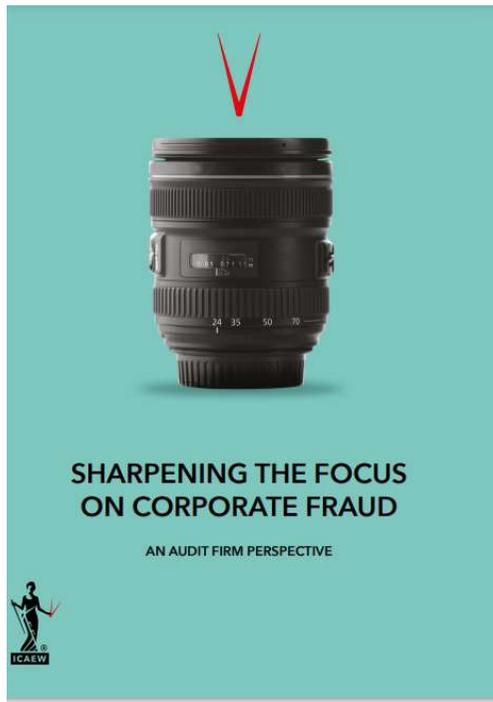
Lack of independence?

Time and fee pressure?

'Groupthink'?

Domineering clients?

ICAEW Insight



[sharpening-the-focus-on-fraud.ashx](#)
[\(icaew.com\)](#)

“Banking documentation is often scrutinised by junior staff who need to be encouraged to question situations in which proper banking documentation is absent”

“Document authenticity tools are a really interesting area, because many frauds are perpetrated with falsified documents”

“We have a good track record of pushing back sign-off where we need to”

“Junior members of the audit team are in a difficult place – are they really going to look the MD in the eyes and say, ‘I really would like more information than that’”

ISA (UK) 240 revised

Overview





Top Tips from QAD

Top four problem areas

1. Lack of challenge

- Assessing valuers and critiquing reports
- Going concern appraisal where no forecasts

2. Weak risk assessment

- Scattergun approach to risk assessment
- Work performed doesn't relate to risks

3. Weak testing of revenue

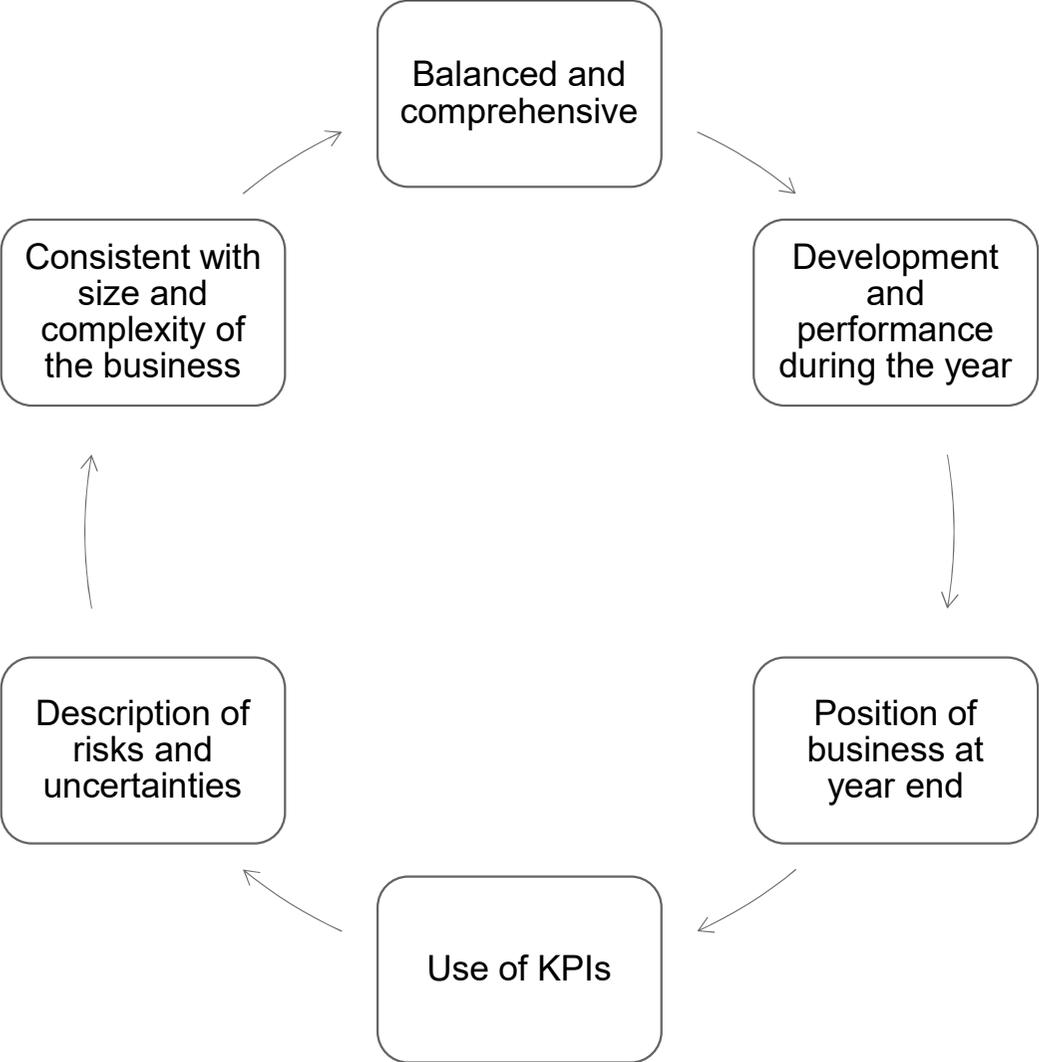
- What is it about revenue that makes it higher risk?
- Terms of sale? Accounting (FRS 102/IFRS)?

4. Ethics

- Trustee shareholdings ...



One more from me!
S414A CA06



Marks out of 5?!

'Sales turnover for the year amounted to £17.1m (2021: £14.7m) and the profit after tax amounted to £2.3m (2021: £0.9m) The directors believe that the company is in a strong position for future growth.'

The UK's exit from the EU has had an impact on business performance in 2022. Lead times for raw material supplies from Europe have increased to 2 to 3 days and freight and duty costs have increased. The company recovered strongly from COVID in 2022. Textile sales were adversely affected during Q1 due to lockdown but recovered thereafter.

The key business risks affecting the company are competition from UK and overseas manufacturers, consumer demand and the price and availability of raw materials.'



Any questions?



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