

*Looking ahead –
hot topics and tips
for 2024 audits*

13 NOVEMBER 2023

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Today's presenter



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Ask a question



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.

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International Standards on Quality Management

Revisions to risk standards

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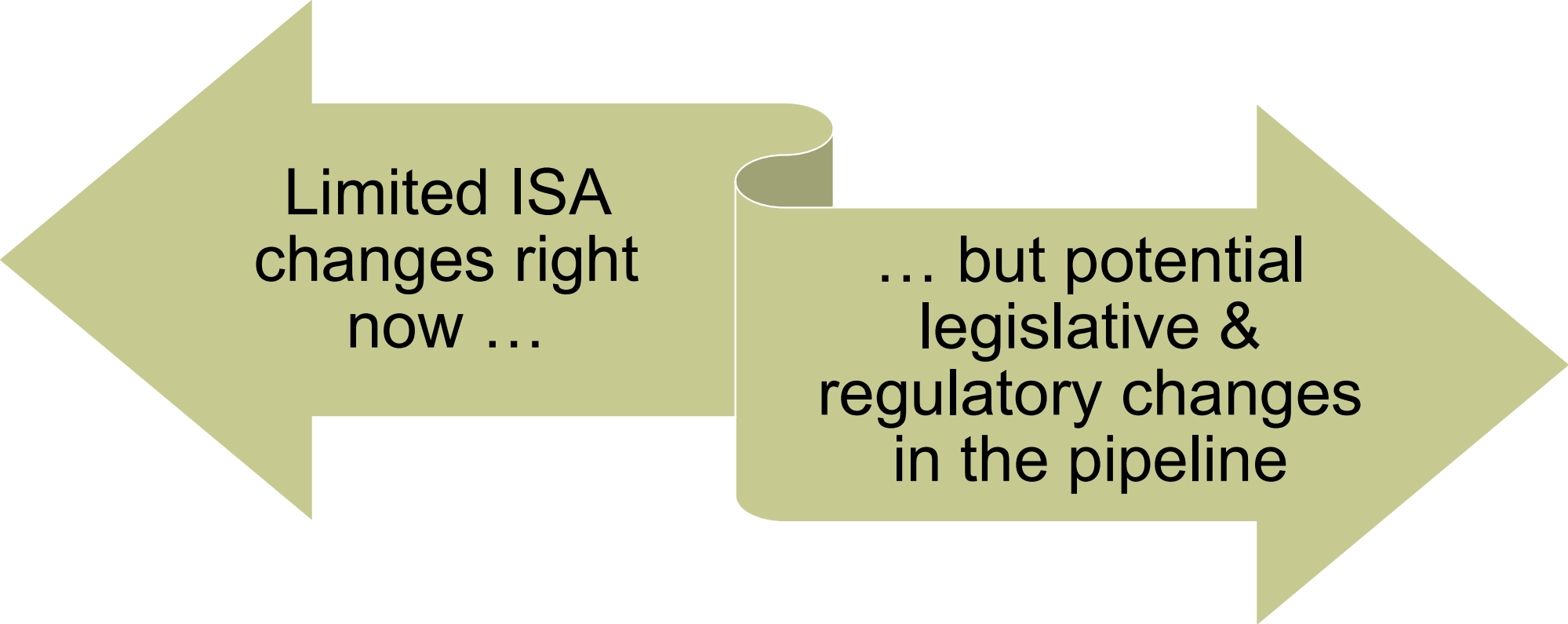
Looking forward

Q&A



The Big Picture

What's changing?



Limited ISA
changes right
now ...

... but potential
legislative &
regulatory changes
in the pipeline

Legislative and regulatory change

- Audit exemption statements
- Removal of option to file filleted accounts
- 'Failure to prevent fraud' offence

Economic Crime
Act 2023



- Smarter Business Non-Financial Reporting
- Changes to thresholds?

Department for
Business & Trade
consultation



- Compulsory alternates
- CPD
- Sanctioning RIs

ICAEW Audit
Regulations





HOW HIGH INFLATION IMPACTS ACCOUNTING

GUIDE

1 December 2022

As inflation increases after a sustained period of low inflation, companies are now having to consider the impact high inflation has on their financial reporting and related uncertainties.

Although the effects of high inflation will vary from business to business, there are some common topics that entities should evaluate when considering how recent inflationary trends may affect their accounting and financial reporting. This guidance looks at those considerations that may be relevant when inflation is high as opposed to it being considered hyperinflation. Amongst other indicators, hyperinflation is typically where inflation measures 100% or more cumulatively over 3 years. When inflation becomes hyperinflation, IFRS reporters should apply IAS 29 *Financial Reporting in Hyperinflationary Economies*. Those reporting under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* must apply Section 31 *Hyperinflation*.

Inflation is the rising of prices over time and the decrease in the purchasing value of money. As such, inflation impacts the time value of money. When inflation is negligible, it is not necessarily a factor that requires significant judgment or estimation. However, as it increases more care may

Top tips!

- 1** Stick to balance sheet conditions (**except going concern**)
- 2** Be consistent within discounting (nominal or real)
- 3** Read contracts carefully (and watch for renegotiation)
- 4** Think carefully about deferred tax assets
- 5** Consider DB actuarial assumptions (and plan values)
- 6** Tailor disclosures appropriately

Defined benefit pension schemes

	y/e 31 March 2024 £000
Balance Sheet	
Fixed assets	11,047
Current assets	819
Creditors < 1 year	(254)
Net current assets	565
Creditors due > 1 year	(7,685)
Pension liability	(1,033)
Net assets	2,894
Shareholders' funds	2,894

	£000
Scheme assets	4,200
Scheme liabilities	5,233
Net deficit	1,033

Recognising an asset

If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset **only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.**

FRS 102.28.22



Restrictions on asset recognition included in remeasurement gains/losses (OCI)

What's on QAD's radar?

- 1 New CPD rules
- 2 ISQM implementation
- 3 Revised risk standards (ISA 315/240)
- 4 Audit of construction contracts
- 5 Acceptance and cessation
- 6 Audit reports



International Standards on Quality Management

15 DECEMBER 2022

Three new / revised Standards

ISQM (UK) 1

Previously International Standard on Quality Control 1

ISQM (UK) 2

Engagement Quality Reviews

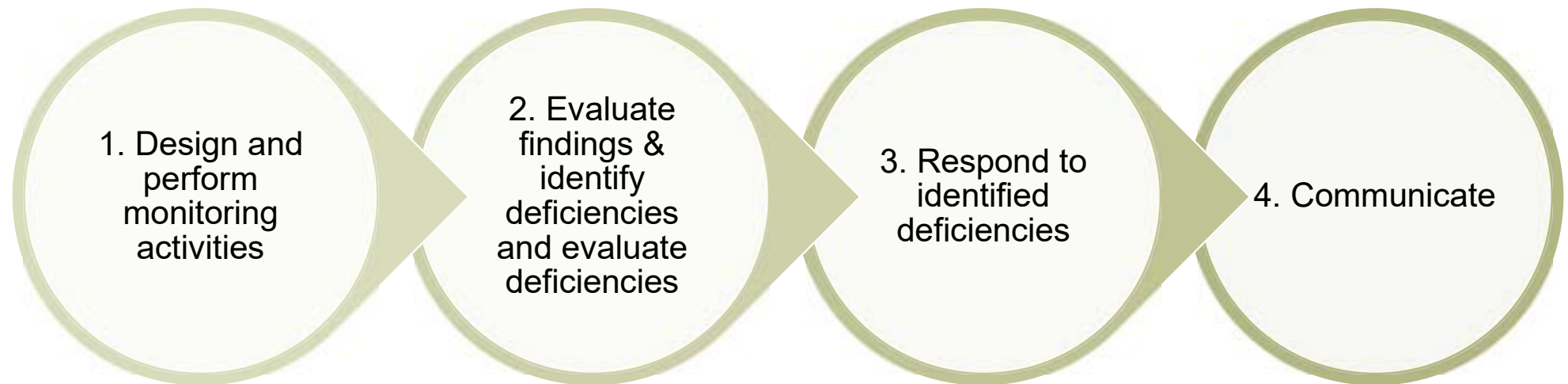
ISA (UK) 220

Quality Management for an Audit of Financial Statements

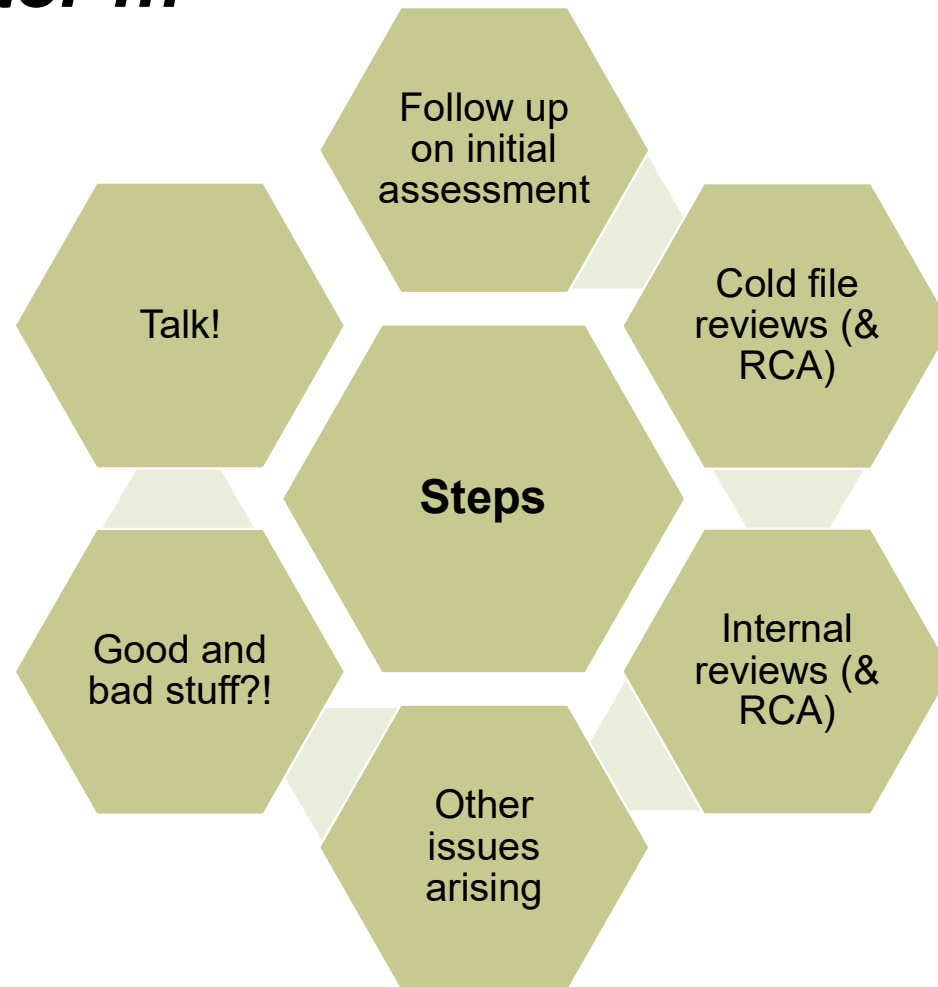
The transition process



M&R end to end



How to monitor ...



Annual evaluation of SoQM

Who?
(Para 53)

- Individual with ultimate responsibility (IUR)

When?
(Para 53)

- Point in time
- At least annually

Opinion
(Para 54)

- Unqualified – Except for – Adverse

Next steps
(Para 55)

- Prompt action and communication if opinion not unqualified

Further appraisals
(Para 56)

- Internal quality control system for audits (UK req't)
- Individual with ultimate responsibility (IUR)

Risk action plan - How did it go?

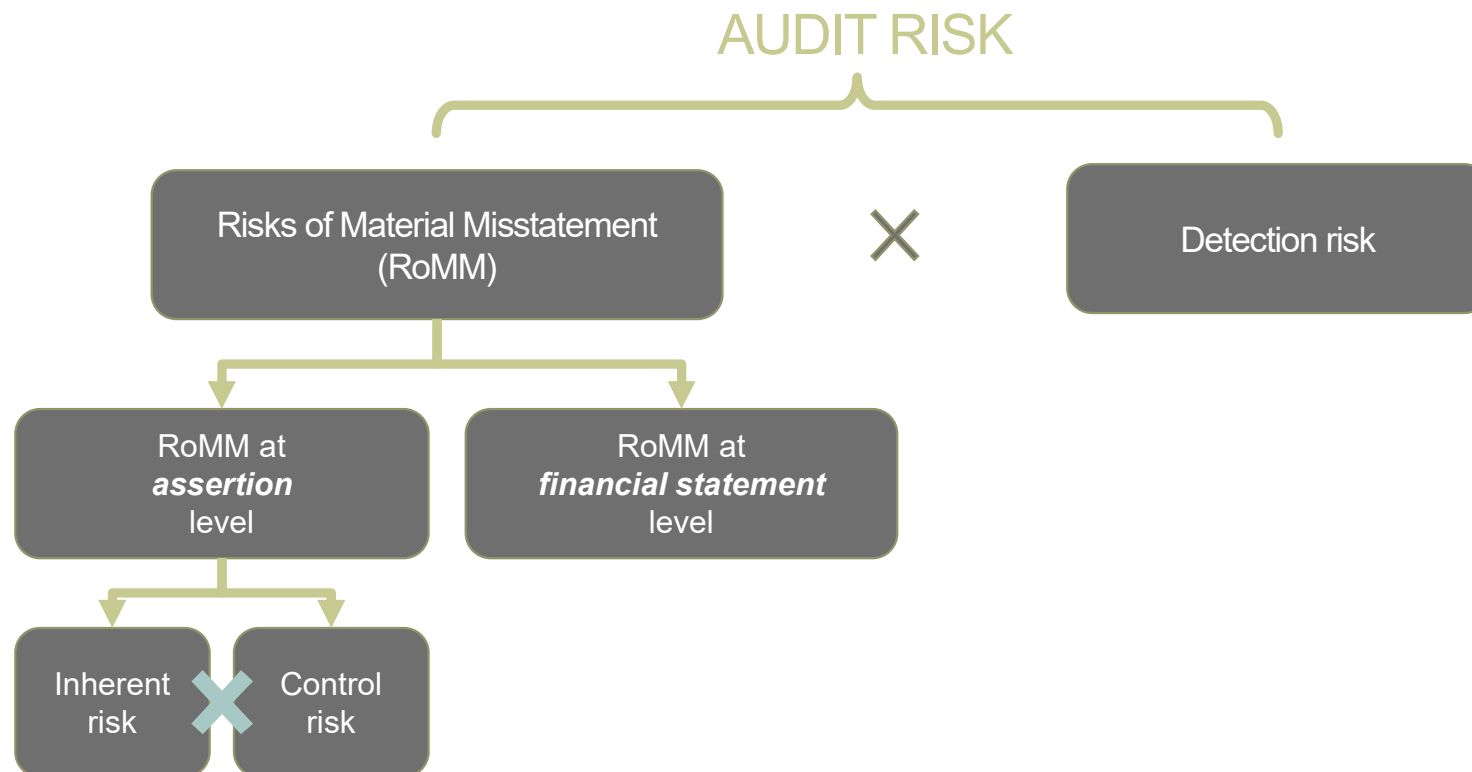
Response to risk	Action	Deadline	Frequency	Monitoring of response
Firm wide training programme on substantive analytical review	Training manager to set up	30 June 2023	One off requirement	Review at quarterly audit committee in July 2023 Follow up thematic cold reviews of completed audits in H2 2023
Handover procedures written into partnership agreement	Managing partner to take up with partner group and legal advisors	30 June 2023	One off requirement	Review at quarterly audit committee in July 2023



Revisions to Risk Standards

12 MONTHS ON ...

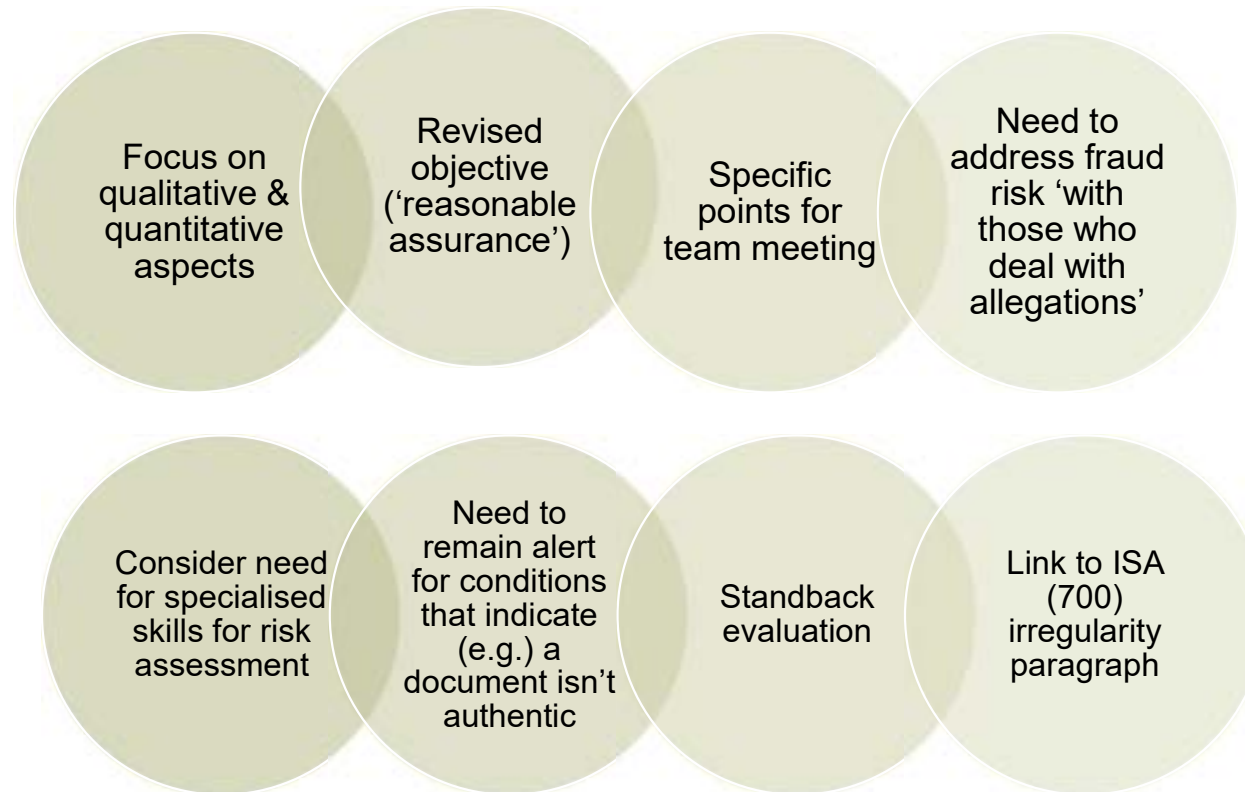
The audit risk model



Tips

- 1 Don't confuse financial statement level risk and assertion level risk
- 2 Remember that control risk will be 'not applicable' for many audits
- 3 Think carefully about systems and controls even when you're not placing reliance
- 4 Don't let clients do ALL the heavy lifting on IT!
- 5 Where a risk is considered significant, you've got to nail it!
- 6 Try to use the revised standard to leverage greater audit efficiency

ISA (UK) 240 revised Overview



Periods commencing 15 December 2021

File review follow up



Does the team discussion adequately address the new ISA requirements?



Does the discussion with management adequately address the new ISA requirements?



Have appropriate discussions about fraud and fraud risk taken place with those charged with governance?



Was consideration given to the need for specialised skills to address fraud risk?



Was journals testing performed in accordance with the requirements of paragraph 33a of ISA (UK) 240 revised?



Other QAD Hot Topics

Market opportunities – and risks



Good practice when taking on new audits

Article ICAEW
Published 01 Nov 2022

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Recent intelligence shows that there are significant numbers of UK companies seeking new auditors and that the audit tender market is buoyant. Audit firms that evolve and enhance their client acceptance procedures adapting to current market risks are well equipped to make informed decisions when choosing to accept new audits into an existing portfolio.

Cessation

Requirements

- Be clear
- Is it a resignation?
- Statement of reasons – but exempt reasons
- Audit firm – and audited entity

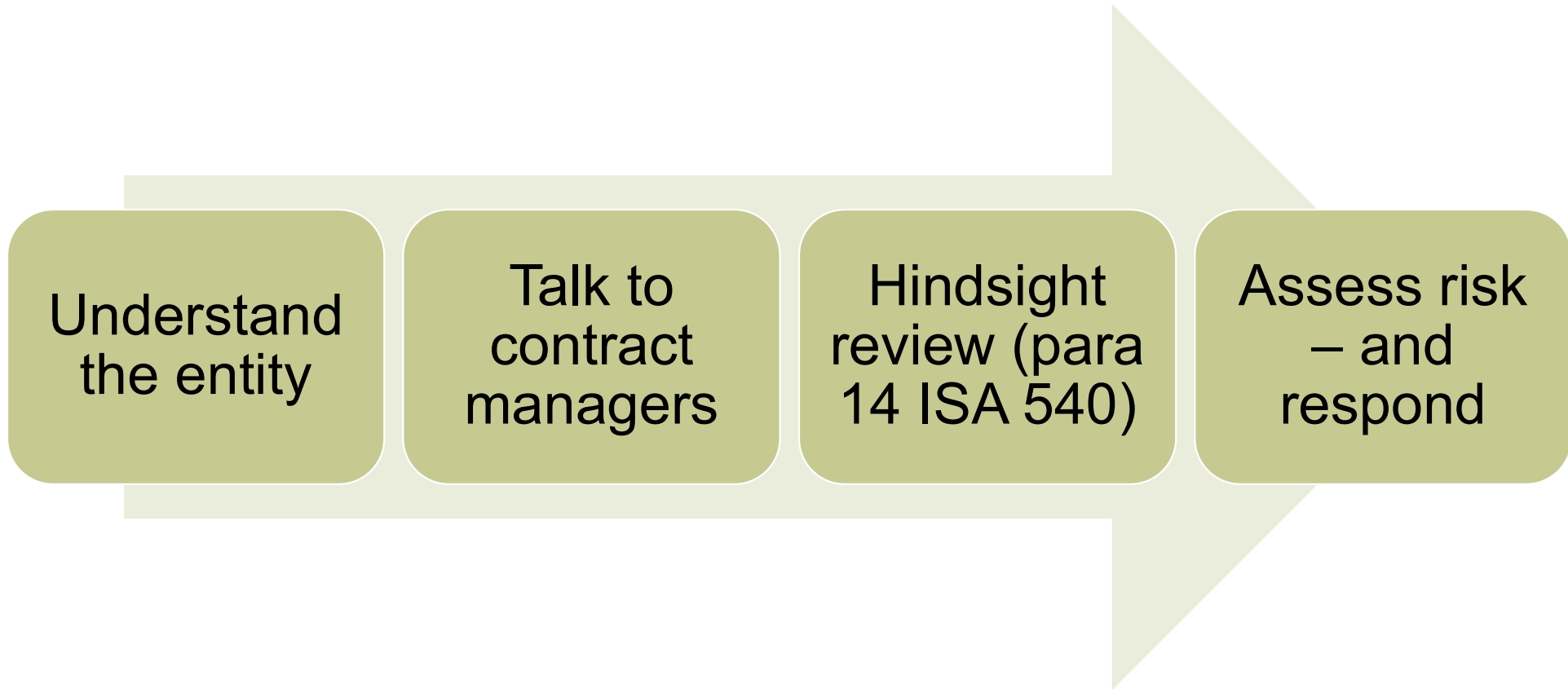
Statement presentation

- Comply with statutory requirements
- Tell the story
- Lay the trail

Successor auditors

- Read it!
- Consider implications

Audit of construction contracts



Audit of construction contracts

Our review of work in progress (WIP) in an audit by a firm with one audit partner identified that there had been detailed discussions with the client's quantity surveyor about amounts recognised as WIP. However, the level of detail on the file regarding the audit team's challenge of the stage of completion of contracts, and expected costs and margins, did not show enough audit evidence to conclude on the balance in the statutory accounts.

“

The firm acknowledged that, although it had identified appropriate risks to address for the WIP balance and had completed some more detailed work on costs and margins, the work was not documented in a coherent way. The firm committed to carrying out additional work at the next audit to review the outcome of previous completed projects to assess the accuracy of management estimations.

Audit reports

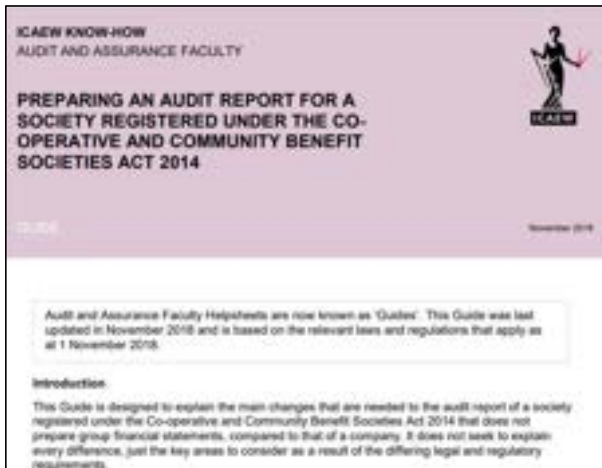
CCBSs file accounts with the FCA

FCA thematic review has revealed incorrect audit report wording

Accountants report may need to be signed by registered auditor

AAF 07/16 should not be followed

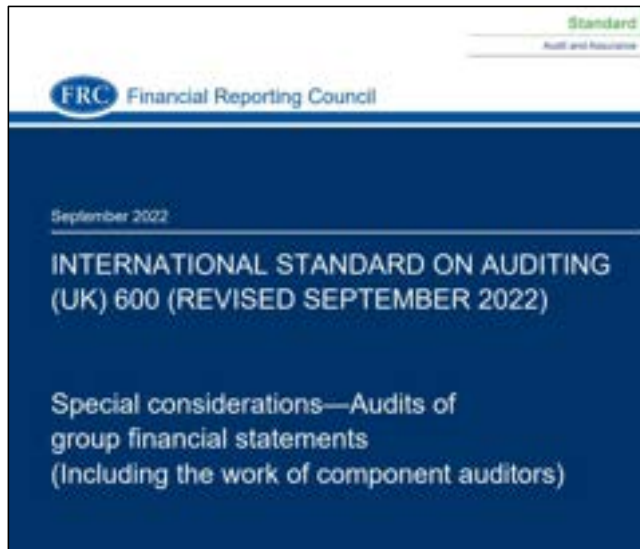
Challenges for mutuals that are Scottish charities registered with the FCA





Looking forward

ISA (UK) 600 revised



p/c 15 December 2023

Change in definition of component

Proactive risk-based approach to group audits
'Horizontal' v 'vertical' approach

Greater involvement/responsibility for engagement partner based
on ISA 220 revised

Robust two-way communication between the group and component
auditor

Requirements re review and retention of component auditor work
papers

Materiality considerations

Other changes in the pipeline

ISA (UK) 505

- External confirmations
- P/C 15 December 2024

ISA (UK) 250

- Laws & Regulations/Reports to Regulators
- P/C 15 December 2024?

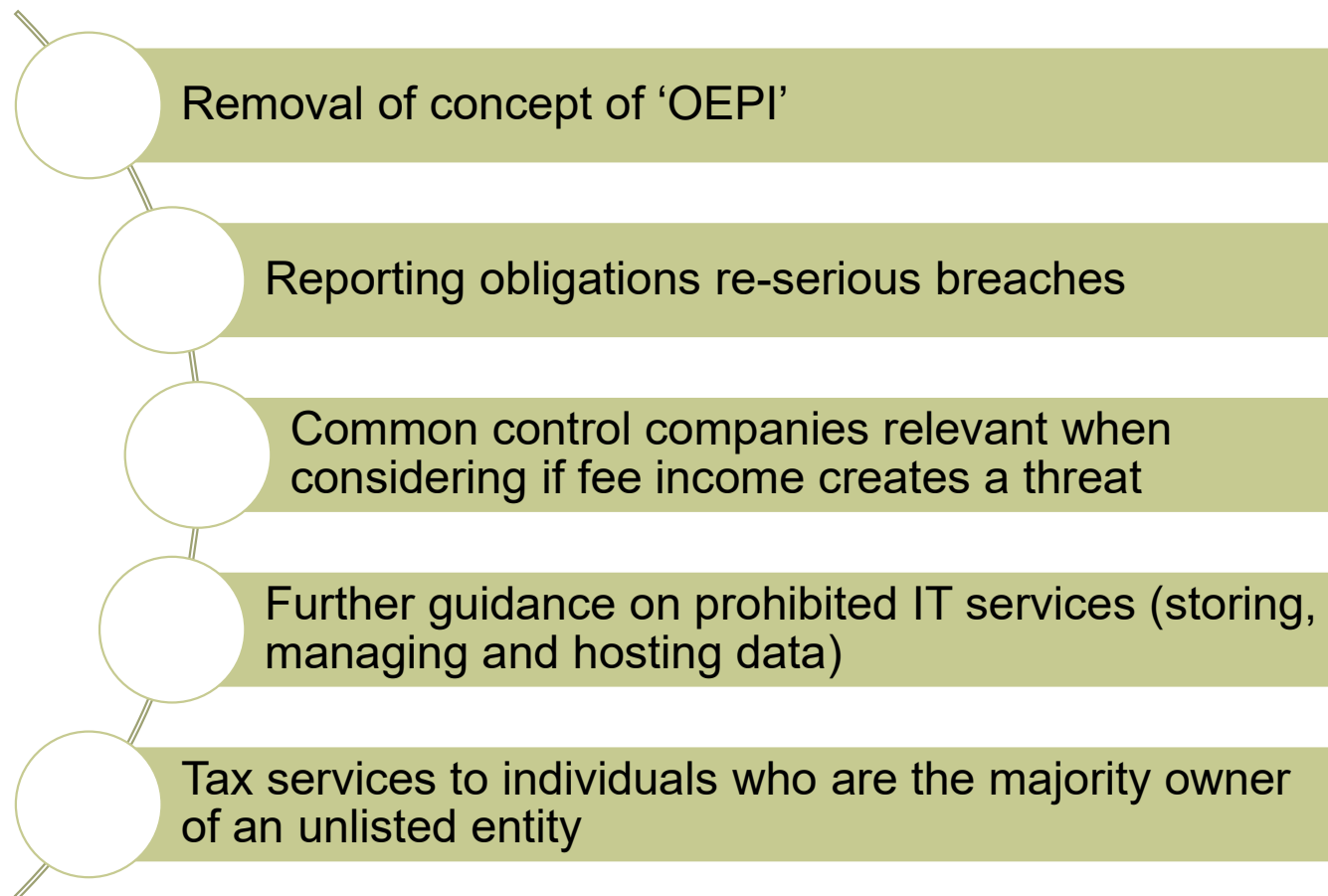
ISSA 5000

- General Requirements for Sustainability Assurance Engagements
- Subject to consultation

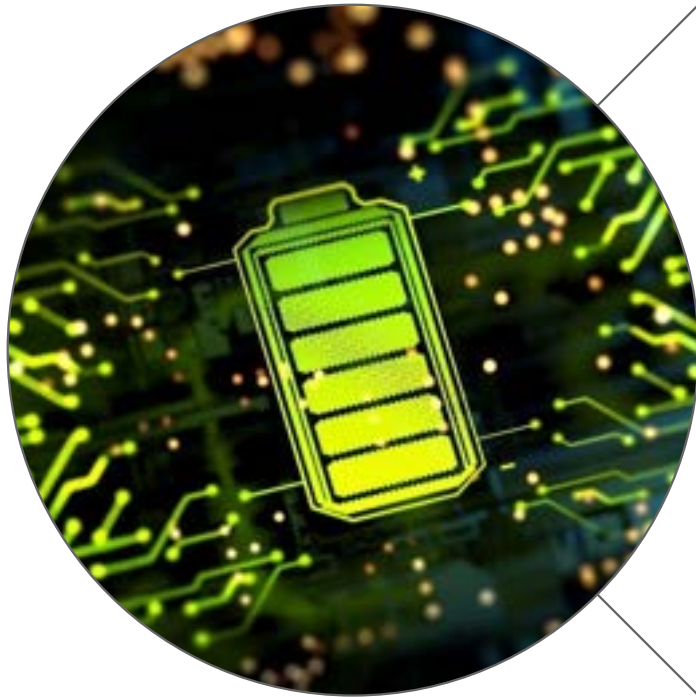
Ethical Standard



Consultation till 31 Oct 2023
Effective 15 Dec 2024



IT services



Your firm has recently helped an audit client implement cloud computing software (creation of chart of accounts, transfer of data etc.). Is this allowed under the Ethical Standard and, if not, what are the implications?

What the Standard says ...

‘The firm shall not design, provide or implement information technology systems for an entity relevant to an engagement where: (a) the systems concerned would be important to any significant part of the accounting or financial management system or to the production of the financial statements audited by the firm ...’

FRC Ethical Standard para 5.50



Q&A