

ICAS Audit Monitoring – upcoming developments to the monitoring visit approach

- **There will be some important developments to ICAS Audit Monitoring visits in 2018.**
- **The approach will include a more detailed request for information in advance of the visit.**
- **This will help to enhance the focus of the onsite stage of the monitoring process.**

Under the current approach firms are asked to submit their audit client information one month before the visit, including details of client turnover; audit fee; and confirmation of any qualified and/or modified audit reports.

Under the revised approach, firms will be asked to submit further information, which would currently be requested on the first day of the visit, including copies of:

- The firm's audit client information;
- Recent Audit Compliance Reviews (ACRs);
- Confirmation of the audit procedures used by the firm, including procedures used on specialist audits (if different) and disclosure checklists;
- CPD/training records for all audit Responsible Individuals (RIs);
- A list of audit staff, noting qualifications and job titles (including subcontractors or consultants used in audit work); and
- The firm's most recent PII documentation.

Firms will be required to submit this information to the ICAS Visit Co-Ordinator by two weeks before the visit. The firm will also be required to complete and return an audit client analysis checklist (covering client details such as largest audit fee, specialist clients etc); and an independence issues checklist (covering identified ethical threats and implemented safeguards).

These developments will enable the ICAS inspector to more effectively plan the visit approach, and will minimise the number of background questions asked of firms at the outset of the onsite stage.

Reporting in line with revised ISA (UK) 570

- **The auditor's considerations in relation to going concern have been updated in revised ISA (UK) 570 (Revised), *Going Concern*.**
- **The revised ISA includes guidance relating to the appropriateness of disclosures when a material uncertainty exists, and changes from the previous version of the standard.**

As noted in our Spring 2017 edition of audit news, the revised ISAs apply for accounting periods commencing on or after 17th June 2016. The main changes are in relation to the audit report, and involve ISA (UK) 700 Revised, ISA 720 (UK) Revised, and ISA (UK) 570 Revised including:

- The auditor's opinion section is required to be presented prominently at the beginning of the audit report, unless law or regulation prescribe otherwise;
- An enhanced description regarding the responsibilities of the auditor, including representations on detection of misstatements arising from fraud or error, and exercising professional scepticism throughout the audit;
- New descriptions of both the responsibilities of management and the auditor in relation to going concern;
- Enhanced reporting requirements when a material uncertainty exists in relation to going concern; and
- New and revised reporting requirements relating to other information that is included in an entity's annual report.

As regards ISA (UK) 570, the auditor's reporting responsibilities in relation to going concern have changed under the revised standard (see s12, s18 and s21 of the standard). Specifically, the auditor's conclusion and the impact on the audit report as set out below:

Conclusion of the auditor	Impact on the audit report
There are no material uncertainties in respect of going concern and the auditor agrees that the going concern basis is appropriate	The auditor's report will include a 'conclusions relating to going concern' section per the revised ISA (UK) 700
The going concern basis of accounting is appropriate but a material uncertainty exists re going concern which <u>has</u> been adequately disclosed	Separate section headed up 'material uncertainty related to going concern'. This draws attention to the material uncertainty and should refer to the relevant disclosure in the accounts. Under the previous standard, this would have been reflected by an 'Emphasis of Matter' paragraph in the audit report.
There is a material uncertainty in respect of going concern which has not been adequately disclosed in the financial statements.	Consider whether material (if so consider a qualified opinion), or if considered material <u>and</u> pervasive (consider an adverse opinion).
The going concern basis of accounting is inappropriate.	If the auditor considers that the use of going concern basis is inappropriate, this would result in an adverse opinion.

The key difference is that, under the previous version of ISA 570, if the auditor concluded that the going concern basis of accounting is appropriate, but a material uncertainty exists, and this material uncertainty had been adequately disclosed in the financial statements, the auditor would include an Emphasis of Matter paragraph in the audit report.

As with all matters which may affect the audit opinion, auditors are advised to ensure that the conclusion on going concern is clearly justified and recorded on the audit file including all relevant supporting documentation.

A copy of the ISA (UK) 570 Revised can be obtained from the FRC website (www.frc.org.uk)

FRC Thematic Reviews

The Financial Reporting Council (FRC) has published three thematic reports to help companies improve the quality of their corporate reporting in acknowledged areas of difficulty.

The reports detail findings from the FRC's 2016/17 thematic reviews to which companies can refer when preparing their next report and accounts, and cover:

- [Judgements and Estimates](#);
- [Pension Disclosures](#); and
- **Alternative Performance Measures.**

The thematic reviews recognise the most significant improvements in disclosure, including extracts from the better disclosures which most closely matched the FRC's expectations. The FRC expects other companies to use these examples observed to assess the quality of their own reporting and financial statement disclosures.

Revision of Practice Note 15: The audit of occupational pension schemes in the UK and withdrawal of Practice Note 22: Retirement Benefits - Defined benefit schemes

The Financial Reporting Council (FRC) has issued a revised Practice Note 15: The audit of occupational pension schemes in the United Kingdom. The final revised Practice Note reflects actions that the FRC have determined should be taken, following consideration of responses received to the original exposure draft (issued April 2017).

The revisions to Practice Note 15 reflect:

- Changes in pension legislation since the previous version of the PN;
- Revisions to UK auditing standards (ISAs (UK));
- Changes to UK accounting standards (FRS 102) and the revision of the pension SORP; and
- Continuing developments in regulation and guidance issued by The Pensions Regulator (TPR).

A copy of the revised Practice Note can be found on the FRC website at www.frc.org.uk/auditors/audit-assurance/standards-and-guidance/practice-notes

The FRC is also withdrawing Practice Note 22 – ‘The auditor’s consideration of FRS 17 ‘Retirement Benefits’ - Defined benefit schemes’, which was originally issued in 2002.

Withdrawal of Practice Note 21: The Audit of Investment Businesses in the United Kingdom

The FRC has withdrawn Practice Note 21 – The Audit of Investment Businesses in the United Kingdom, which was issued in 2009.

The Practice Note has been withdrawn with immediate effect, as much of the content was superseded by the issue of the FRC’s Client Asset Assurance Standard in 2015, and the remaining material considered to be out of date.

The FRC will consider whether there are any issues covered by PN 21 that need to be incorporated within the forthcoming project to revise PN 19 – The Audit of Banks in the United Kingdom, which will be delivered in 2018.

Reminder – “Keeping Audit on the Right Track” Mandatory course for ACPs and RIs

- **As of 1 January 2016, there was an increase in the mandatory requirement for Audit Compliance Partners (ACPs) who are required to attend once every three years.**
- **ACPs who haven’t attended only have one year left in the current cycle.**
- **We will be contacting each ACP who hasn’t attended in the current cycle to discuss attendance in 2018.**

As part of the ICAS developmental approach to regulation, this course aims to educate Audit Compliance Principals (ACPs) and Responsible Individuals (RIs) in developing a strong compliance function and preventing some of the recurring issues identified on audit monitoring visits. The course is prepared, presented and regularly updated by the Audit Monitoring team, and covers a number of key areas of audit compliance including:

- The role of the Audit Compliance Principal;
- How to ensure the Audit Compliance Review process is effective;
- Consistency of audit quality and use of audit procedures;
- Common pitfalls and audit file issues identified on monitoring visits;
- The FRC Ethical Standard; and
- Current developments.

As of 1 January 2016, there was an increase in the mandatory requirement of this course, where the Authorisation Committee has considered that the course will be beneficial to a wider audience.

The resulting requirements are that:

- Each ACP will be required to attend at least once in the three-year period from 1 January 2016 to 31 December 2018;
- Each RI will be required to attend at least once in the five-year period from 1 January 2016 to 31 December 2020;
- Newly approved RIs will be required to attend the course within 12 months of approval; and
- Previously inactive RIs (i.e. approved RIs who are not signing audit reports), who have recommenced the role, will be required to attend the course within 12 months of becoming active.

Consequently, ACPs who haven't attended in the current cycle only have one year left to do so. ICAS will be contacting all ACPs who have still to attend the course to discuss options for attendance in 2018.

With this in mind, please note that, from 2018, there will be annual courses in Aberdeen; Glasgow; and Edinburgh, in addition to rotating various other locations. For further details, including dates and locations for all 2018 courses, please search for '*keeping audit on the right track*' on icas.com