
SCR Reporting

Bulletin 2021 / 1

Updated Audit Manual and Documentation

This Bulletin deals with the issue of updated audit documentation relating to the implementation of revisions to two significant ISAs – ISA 570 Going Concern and ISA 540 Accounting Estimates and Disclosures.

We have also taken the opportunity to update the Audit manual and related documentation based on feedback and experience in using the documentation and in anticipation of the major changes to be brought in with the implementation of revised ISA 315. Although this ISA is not mandatory until periods commencing on or after 15 December 2021 (in practice 31 December 2022 year-ends and later) a number of the changes are reflected in ISA 540, in particular the concept of a spectrum of risk, and we have made limited alterations to our risk model in anticipation of these changes.

More changes will be introduced over the next two years.

Accounting estimates and disclosures

ISA 540 makes significant changes to the requirements for auditing accounting estimates and disclosures. Given that the audit of accounting estimates is an area which has not been dealt with properly in many cases, we have made the following changes in audit approach.

A new chapter of the Audit Manual has been included which outlines the requirements of the ISA.

- (a) The **PAF** (or permanent information section P) now includes an extended section for the recording of those events and conditions that give rise to accounting estimates or could cause changes identification of key accounting estimates and related procedures and controls.
- (b) The **planning section** now includes additional questions designed to identify those accounting estimates which require audit evidence.
- (c) Within the **individual work programmes**, we have included a question requiring the identification of material accounting estimates. For example, in debtors we would expect to see reference to provision for doubtful debts, in fixed assets to depreciation etc. We have pre-populated some possible estimates in these programmes, but not all, and the list should be added to as required, or deleted if not applicable.
- (d) A separate **Key accounting estimates** work paper is required for each key estimate. One copy is included in the standard working papers and should be copied and included within the audit file in the area to which it relates. Where a number of key accounting estimates have similar control features a composite **Key accounting estimates** form can be filed in section C.

Where you have an audit for a period commencing on or after 15 December 2019 in progress it is not necessary to redo the planning using the updated documentation. It should be sufficient to complete the **key accounting estimates** forms within the individual sections of the audit file.

Going concern

There have been revisions to ISA 570 increasing the responsibilities on the auditor even in clients where there is little or no uncertainty about the ability of the entity to continue as a going concern. Since going concern needs to be considered at the planning stage, during the audit and within the audit completion phase we have amalgamated the existing audit documentation into a single work programme which is found in section C. The planning and completion documentation cross refer to this work programme.

Work programmes

We have retained the option to have a composite work programme within section C, although our preferred option would be to file the work programmes with the individual audit areas.

File indices

We have now included file indices for each section of the file (previously we only include sections A – D and section P).

The typical index for a section of the file would be:

1. Lead schedule
2. Audit work programme
3. Key accounting estimates

Sections 4 onwards record the results of individual audit tests, supporting schedules etc. We have not been specific in defining an indexation template for sections 4 onwards. For example, you may wish to include all of the working papers on tangible fixed assets under G4 and investment property under G5. Alternatively, you may wish to subdivide your fixed asset working papers into headings such as lead schedule (G4) additions (G5), disposals (G6), depreciation (G7) and impairment (G8). Investment property would then be G9.

Materiality

We have updated the approach to materiality, taking into account ICAEW guidance in this area, which suggested that it is not usually appropriate to take an average of methods and requires documentation of the justification for the amounts chosen.

There is also more guidance on the selection and use of performance materiality and tolerable error.

We have included a new **Materiality checklist B3** which we encourage you to use as it more fully demonstrates compliance with the ISA. It remains acceptable to record the materiality and basis for selection within the planning memorandum B2.

Approach to audit testing

SCR Audit continues to permit judgement in determining the nature and basis of items to be tested within the substantive work programmes. For example, you may wish to test all items above performance materiality and a random sample of say 5 when testing a debit balance for overstatement. Or when testing transactions during a period you may consider that 3 a month is appropriate.

However, there will be occasions when you need to determine samples on a more formal basis. We have, therefore, updated the section in the Audit Manual which deals with the sampling model.

We have also removed the old version of the **Audit Evidence Summary** form and replaced it with two documents.

- (a) A new form with that name **Audit Evidence Summary** is now included on the file (if used) as **B4** (previously B6) and focuses on the approach to audit testing in individual audit areas and the associated assertion risk.
- (b) A new form **Audit Sampling plan** has been developed to record the sampling approach which was previously included on the Audit Evidence form. One copy of the **Audit Sampling plan** is included in Section C of the audit working papers and should be copied for each audit area or individual test as appropriate.

Note that the sampling model itself has not changed significantly, but we believe we have improved the documentation in the manual and in the working papers themselves.

Audit Reports

In Bulletin 2020/2 we outlined the significant changes to audit reporting which include a change from negative assurance wording in relation to going concern to positive statements that the auditor considers the use of the going concern basis is appropriate and that there are no undisclosed material uncertainties.

The new requirements also include a requirement for the auditor to report on the extent to which the audit was considered capable of detecting irregularities, including fraud. ICAEW has recently issued guidance on how to reflect that within audit reports.

The updated wording for the audit report and the illustrations in the Bulletin 2020/2 have been incorporated in the Audit Manual.

Ethical Standard

In the updated FRC Ethical Standard the guidance on long association with the client changed on 15 March 2020. Previously it was possible to conclude that there was no threat to objectivity which required the implementation of a safeguard. The revised standard includes a requirement for a safeguard. This has resulted in a change to the Independence Checklist B1.1 / PAF.

Audit Manual

The manual has been updated for these changes.

Access to the audit working papers

You can now download a complete current audit file pack or the separate sections for completion, planning and work programmes. A permanent audit pack is also available for download.

These are available in Word and PDF.

You can tailor the Word version before downloading, for example you can delete those working papers that are not applicable, such as the new client checklist if the client is an existing client.

We have also redesigned each of the audit forms with a header of client and accounting period, which allows you to fill in the header before printing the schedules.

You also have the option of competing the Word version on screen or printing the documentation and completing it manually.

The standard documentation does not include accounts disclosure checklists, which need to be downloaded and completed separately and filed in section D.

There are two versions of the audit documentation one for periods commencing on or after 15 December 2019 and one for periods commencing before that date.

Audit Compliance Manual

There will also be some significant changes to compliance procedures when the Quality Standards become effective in the UK and the manual will be updated in due course.

Training on the audit manual

Given the significance of these changes we have arranged a number of courses on Zoom which will cover the update issues which triggered the changes in the manual, together with worked example of how these changes impact in practice.

These half day courses are priced at £30 per user.

In addition, we are now offering half day audit manual user courses for firms. The cost per course is £500. These courses are initially available on Zoom but will be available at your office once the government's roadmap allows.

Subscriptions

Given the increased complexity of the financial reporting and auditing standards represented in our manuals, checklists and programmes and taking into account the fact that subscription rates have not changed since 2013, we have increased our charges as follows:

- Individual annual subscriptions of £130 per manual for each of SCR Financial Reporting, SCR Audit and SCR Charities.
- Bundle of all three £300 per annum.

We believe that they continue to be extremely good value and these changes will be applied from the date of your next renewal for existing subscribers and from 1 May 2021 for new subscribers.

Feedback

We are always keen to hear feedback from our users. Please feel free to contact Bill or Mark with any suggestions, comments or ideas for new products or services. Bill is the principal contact for technical issues, Mark for administration, website and related issues. Please address all enquiries to info@scrreporting.co.uk

Bill can be contacted directly for training and technical matters on billtelfordfca@gmail.com