



Practice Support Services and feedback on application of Clarified ISAs

John O'Donnell, Practice Consultant

Presentation

- Practice Support Services
- Clarified ISAs (including audit efficiency considerations)
- Practice management

Matters covered summarise key issues but may not address in full all matters relevant to all of your audit clients

PRACTICE SUPPORT SERVICES

Practice Support Services

- PSS in Member Services department
 - three consultants (ICAEW staff)
 - Chinese walls from rest of ICAEW
 - data strictly controlled

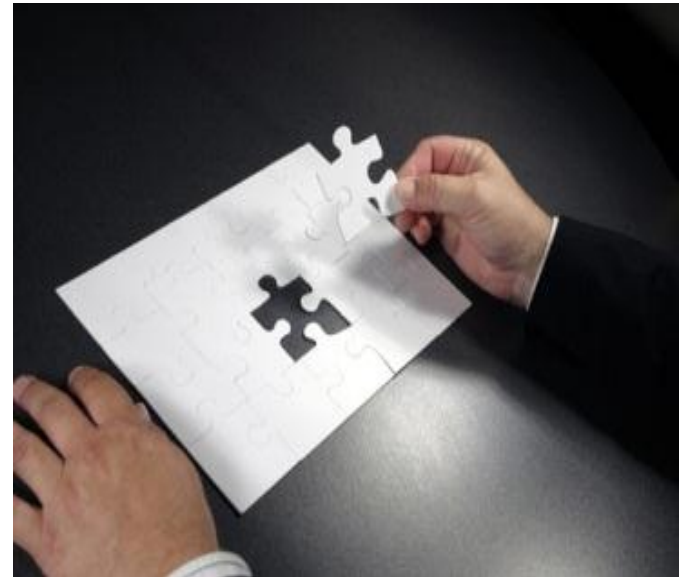
Practice Support Services

- services relevant to Crown Dependencies:
 - clarified ISA coaching, audit cold file reviews, whole-firm reviews
 - Practice assurance compliance reviews
 - Practice management consultancy
 - New services
 - Practice MOT
- also two webinars on clarified ISAs so far
- services available to all GSCCA and JSCCA members

CLARIFIED ISAS

The audit system and cost impact

- update release procedures
- internal briefings
- mandatory/optional guidance
- resource allocation
- pivotal role of planning memorandum
- tailored programmes
- RI involvement at critical points
- training needs



Know your client

- what makes them tick?
- what are their skills?
- how do they control the business?
- what's the vision?
- which management data is key?



Planning

- engagement letter or side-letter amendment
- free-form planning more common (and efficient)
- materiality
 - performance materiality and
 - clearly trivial
- management override of controls
 - need appropriate audit tests, eg
 - journal testing at year-end
 - review of accounting estimates for bias
 - evaluation of judgements and significant transactions outside normal course of business

Related parties (ISA 550)

- ensure that RPs identified in permanent file
- a number of new requirements:
 - no requirement to search for RPs but must ‘remain alert’
 - understand / record relationships and connected transactions
 - management’s controls / authorisation process re RPs / RPTs
 - ensure team discussion records risk of fraud and error re RPTs
 - document risk assessment (including risk of fraud) of significant RPTs including:
 - significant RPTs outside the normal course of the business and
 - related parties with dominant influence

Related parties (ISA 550) cont'd

- what if:
 - there are significant transactions outside the normal course of the business?
 - accounts disclose arms-length RPTs?
 - additional RPs become apparent?
 - client refuses to disclose RPs?

Accounting estimates

- depreciation, bad debts, stock obsolescence, warranty provision
- ISA 540 para 8 lays down specifics
 - identify / understand the requirements of the accounts
 - understand how management identifies transactions which give rise to accounting estimates
 - basis of management estimate
 - review outcome of prior period estimates
 - evaluate ‘estimation uncertainty’
 - assess whether ‘significant’ risk when estimation uncertainty is high



...it is neither necessary nor practicable for the auditor to document **every** matter considered, or professional judgment made, in an audit...

Audit documentation (ISA 230)

Your working papers should be sufficient to enable **an experienced auditor, having no previous connection with the audit**, to understand:

- the nature, timing, and extent of the audit procedures
- the results of those audit procedures and
- significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Groups

- Three situations
 - audit parent not preparing group accounts or audit subs
 - ISA 600 will have little effect
 - auditors of subs where group auditor sends questionnaire – may see more involvement in your audit by group auditor
 - audit group and all component elements
 - document on group file
 - your group and component risk assessments
 - approach to auditing the group and components
 - component materiality
 - communication with those charged with governance of the components

Groups (cont'd)

- Audit group but not all subs
 - complex - significant impact on group planning and strategy
 - identify and record components
 - indicate which components are significant and work currently undertaken (audit/not)
 - if so, material components require audit
 - understand ref component auditor
 - compliance with relevant ethical requirements including independence
 - professional competence
 - whether the component auditor operates in a regulatory environment

Groups (cont'd)

- Audit group but not all subs (cont'd)
 - group auditor responsible for
 - direction, supervision and performance of group audit
 - group risk assessment
 - establishment of an overall group audit strategy
 - also needs to be involved in component auditor's risk assessment
 - group auditor to determine materiality for financial statements and component materiality
 - involvement in determination (by component auditors) of component level materiality
 - communicate with component auditors to obtain sufficient appropriate evidence

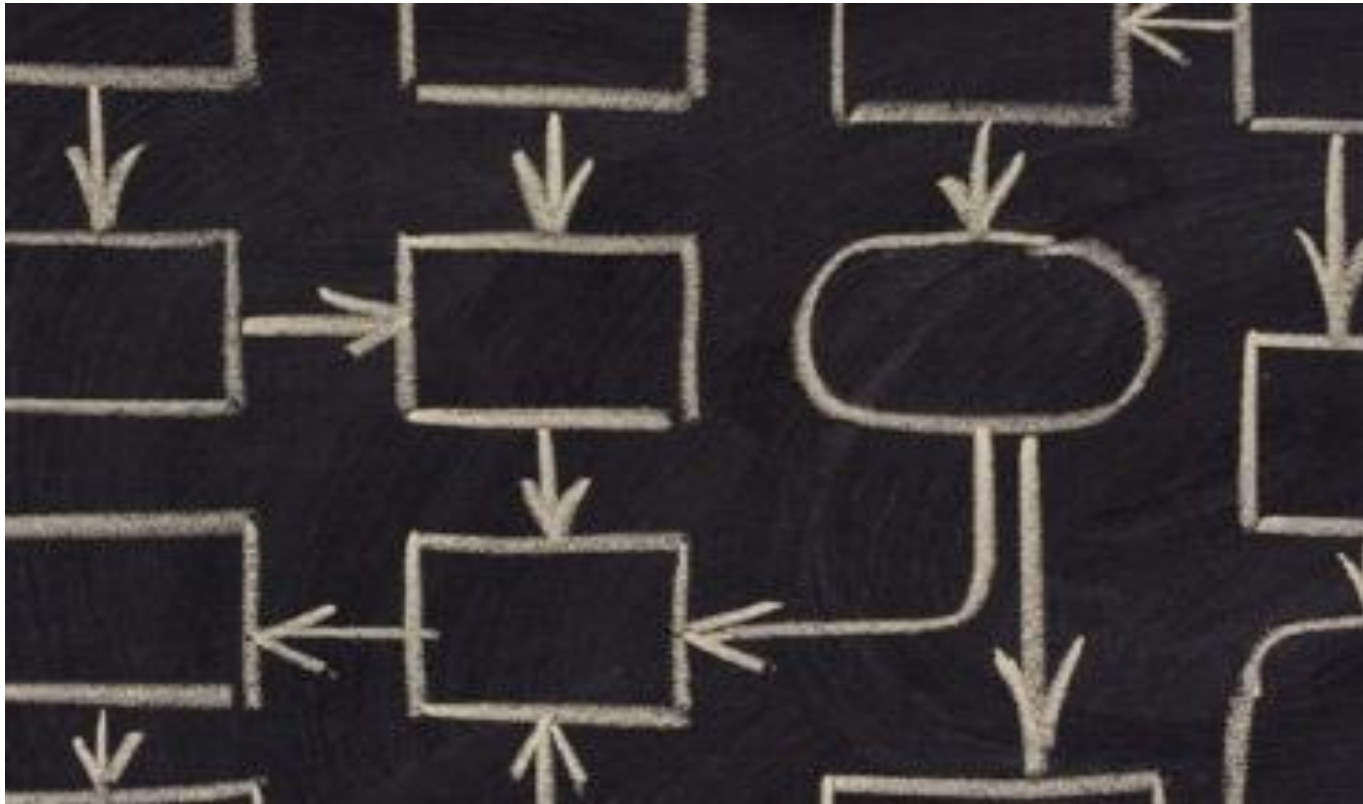
Groups (cont'd)

- Audit group but not all subs (cont'd)
 - group auditor to communicate with those charged with governance of the group various matters (para 49) including:
 - fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements
 - the need to ensure the audit documentation includes written communications between the group engagement team and the component auditors about the group engagement team's requirements
 - consider need to visit significant components and component auditors

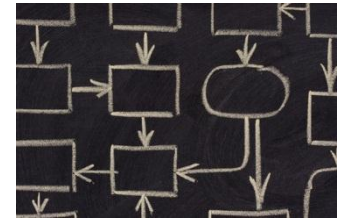
Audit efficiency

- changes to major proprietorial programmes
- discuss requirements with clients
 - when? Before audit and in less busy period
 - impact? Understanding increase in your costs and ability to help your efficiency
 - why? Ensure no surprises
 - related parties
 - journal control system
 - group situation

Completion



Subsequent events



- redrafted not revised
- several points promoted from guidance to requirements
- requires performance of specific procedures (560.7)
- review of minutes of board meetings (up to audit report date) is now a mandatory step
- specific written representation required

Letters of representation

- must be a letter addressed to the auditor
- several new representations (eg, accounting estimates) so need to update templates (see [icaew.com/helpsheets PAS4/HS16](http://icaew.com/helpsheets/PAS4/HS16) for ICAEW's revised template)
- need to disclaim audit opinion (ISA 580 para 20) if management does not provide written representations relating to management's responsibility for the preparation of the financial statements, the information provided to the auditor and the completeness of transactions reflected in the financial statements (ISA 580 paras 10-11)



Matters to communicate

Letter of comment no longer required for unlisted audits **BUT**

- still need to communicate the points orally and document what has been discussed
- there is more to communicate (eg, views about accounting practices, significant difficulties encountered during the audit)
- where you identify significant deficiencies in internal control, these must be reported in **WRITING**
- whether an internal control deficiency is significant is a matter of judgement



Uncorrected misstatements (ISA 450)

- need to set a 'clearly trivial' level at the planning stage
- do not include trivial errors on your unadjusted errors schedule
- need to consider cumulative effect of uncorrected misstatements from prior periods
- need to attach a summary of uncorrected misstatements to letter of representation



And finally.....

- is there a signed current engagement letter?
- are all the team on the same wavelength?
- are your k-y-c notes succinct and insightful?
- have you considered fraud risk sufficiently?
- is there a high quality planning memo?
- are any ES issues addressed appropriately?

And finally.....

- is the team briefing well-focused and recorded?
- are you focusing on your key risk issues?
- are you using the audit system intelligently?
- are you communicating effectively with your client?
- do you have strong audit evidence in the key areas?
- does the file clearly demonstrate that the RI is driving and controlling the audit?
- note ISQC1 para 48
- consider diarising an internal process review

Practice management

- Practice management (from regulatory to consultancy)
 - practice Assurance compliance reviews
 - credit control
 - lock-up
 - staff advancement / optimal use
 - succession planning
 - for acquisition or sale of practices
 - practice 'MOT' for firms (new PSS service)
 - alternates (illness etc)

PRACTICE MANAGEMENT

And finally

- Questions (and answers)
- PSS can be contacted on 01908 248 250 and Practice.services@icaew.com



A world leader of the
accountancy and finance profession