

# What's changed

## May 2021

We are pleased to issue updates to your Mercia LLP Manual (dated 05/21). The principal changes in this update relate to the inclusion of guidance and related forms in respect of the use of audit data analytics (ADA), and reporting on irregularities includ

### Use of audit data analytics

A number of changes have been throughout the manual to encourage teams to consider the use of audit data analytics (ADA) on audit engagements. These changes principally focus on the use of ADA as part of the risk assessment, selection of high risk stratification of populations to assist with sampling, although teams are encouraged to consider its use in other areas, with revisions to planning forms providing prompts for you to record its planned use. Given the audit quality and efficiency gains which planning form (B20) has been added for teams to appraise its use on engagements and record why ADA was or was not considered appropriate to use. Where the use of ADA is intended, a number of other revisions have been made throughout the manual from its use.

Please see below for a detailed list of all changes made as part of this update.

### Reporting on irregularities, including fraud

Following the ICAEW publication of 'How to report on irregularities, including fraud, in the auditor's report - Guide for auditors reporting for the first time' in April 2021 and the comment that 'how the auditor developed their explanation, and the areas considered documented in the audit file', we have added a new A29 Reporting on irregularities, including fraud in the auditor's report in the Audit Methodology and also an additional test on A21 for the RI to confirm their approval.

### Contact us

We are always pleased to receive feedback on our manuals, including any improvements that you would like to see incorporated. Please contact me if you have any comments to make.

Jenny Faulkner (Head of Publications - Assurance and Financial Reporting)

May 2021

### May 2021 detailed list of changes

The following changes have been made:

Updated area	Main reason for update
<b>Audit data analytics and reporting on irregularities update</b>	
<b>Example reports (P_C on or after 15 December 2019)</b>	
A1 - Audit reports	- Updated to reflect the ICAEW 'Audit guide: how to report on irregularities, including fraud' published in April. The footnotes have been added to give clarity over what is auditors.
<b>Current file documents</b>	
<b>Completion (P_C on or after 15 December 2019)</b>	
A21 - Responsible individual review and conclusion	- New test added to confirm the RIs approval of the 'Reporting irregularities, including fraud' wording in the audit report.
A29 - Reporting on irregularities, including fraud in the auditors' report	- New form added to reflect the ICAEW 'Audit guide: how to report on irregularities, including fraud' published in April which states 'How the auditor developed their explanation would be expected to be documented in the audit file'. This expectation goes beyond ISA 700 and we have added a new form to aid documentation for firms.
<b>Completion (both P_C on or after 15 December 2019 and P_C before 15 December)</b>	
A45 - Audit data analytics and other technology update and evaluation	- New form added to provide an update and evaluation of the use of ADA and if relevant, other technology.
A52-1 - Communication with management checklist	- Test 3 updated to include salient findings from the use of ADA and / or other technology.
<b>Planning (both P_C on or after 15 December 2019 and P_C before 15 December)</b>	
B11 - Planning memorandum (and freeform version)	- Updated risk assessment procedures to include a new test 5 on consideration of the use of audit data analytics (ADA) and confirming the appropriateness of its use added to refer to additional guidance material included in the Audit Procedures Manual.
B11 - Audit Freeform Planning memorandum	- References to the B20 for planning the use of ADA and a new footnote 31 added which confirms that B20 must be completed to appraise the use (or rationale for the
B12 - Acceptance of appointment or reappointment	- New footnote added for consideration of audit data analytics as a non-audit service.
B20 - Audit data analytics assessment	- New form added to appraise the use (or rationale for the lack of use) of audit data analytics and to plan the approach.
B21-1 - Communication with management	- Updated nature of assignment to refer to audit data analytics and other technology when communicating the scope of the engagement and the general approach.
B22 - Preliminary analytical review	- Updated objective to include the utilisation of audit data analytics (ADA) for the preliminary analytical review. Additional guidance added at the top of the form and confirmed to confirm the appropriateness of the use of ADA.
B23 - Audit team discussion	- Approach to the assignment updated to incorporate the use of audit data analytics (ADA) and other technology. A new footnote added in relation to which area(s) are confirmed that where there are specialists supporting the engagement for ADA/ other technology they should also be included in the team briefing.
B33 - Audit plan - Trial balance (use of audit data analytics)	- New form added for when using ADA to identify journals /significant unusual transactions for testing.
<b>Audit programme</b>	
N Trial balance audit programme	- New test on journals for confirming the appropriateness of using ADA where relevant.

## Other minor updates

A42 - Going concern update and evaluation (P\_C on or after 15 December 2019)- Updated to make a small correction for a missing word.

B11 freeform planning memorandum (P\_C on or after 15 December 2019) - Updated to make a small correction for a missing word.

PF1-8 - Accounting estimates (P\_C on or after 15 December 2019) - Updated to make a small correction for a missing word.

## March 2021

We are pleased to issue updates to your LLP Manual (dated 03/21). The principal technical changes in these updates relate to the Ethical Standard 2019 and Brexit:

### Ethical Standard 2019

The B12 and B13 (both individual and groups) have been updated for the Ethical Standard 2019 which is largely effective for engagements with periods commencing on or after 15 March 2020.

### The Accounts and Reports (Amendment) (EU Exit) Regulations 2019 (SI 2019/145)

These [regulations](#) update certain definitions to applied within company law (as applied to LLPs) as a result of the UK withdrawing from the European Union (EU). The key update for this manual relates to the disclosure requirements for political donor instrument (SI) 2019/145 was published on 30 January 2019, with a small number of updates taking effect immediately and others taking effect for accounting periods commencing on or after 1 January 2021.

Your guidance notes, accounts disclosure checklists and audit exemption eligibility checklists incorporate these updates.

### The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177)

These [regulations](#) update certain definitions and criteria within company law (as applied to LLPs) as a result of the UK withdrawing from the European Union (EU). The relevant updates for this manual relate to criteria for audit exemptions. Statutory Instr February 2019, although it was amended by (SI) 2019/1392 and (SI) 2020/108. A small number of updates take place immediately with the most significant updates taking effect for accounting periods commencing on or after 1 January 2021.

Your guidance notes and audit exemption eligibility checklists incorporate these updates.

### Other changes

A number of other minor updates to wording have also been made including updating the language used in example letters and reports for gender neutrality.

We have also updated the manual include a new section 'Supplementary forms' which are not mandatory but maybe used on assignments. These include COMD-19, Brexit and a Change of Financial Reporting Framework Impact assessment and risk a provided outside of the manual but with the new method of delivery are now included as supplementary material. Please let us know if there is any other documentation that would enhance the product.

Please see below for a detailed list of all changes made as part of this update.

### Contact us

We are always pleased to receive feedback on our manuals, including any improvements that you would like to see incorporated. Please contact me if you have any comments to make.

Jenny Faulkner (Head of Publications - Assurance and Financial Reporting)

March 2021

### March 2021 detailed list of changes

#### Updated area

Guidance

Contents

Guidance notes

#### Main reason for change

- Contents page updated for the changes made in this update.

- Updated the FRC Ethical Standard section.

- References to Brexit related legislation have been added to the what else do you need section.

- Criteria for qualification as a small LLP updated to reflect Brexit related legislation and SI 2018/1030.

- Criteria for audit exemption updated to reflect Brexit related legislation, SI 2018/1030 and minor clarifications.

- Micro-entity criteria updated to reflect Brexit related legislation.

- Other minor typographical and formatting updates.

- A copy of this guidance has been added to the manual.

What's changed

#### Example letters

- All
  - Updated language for gender neutrality.
- Engagement - terms of business
  - Updated 10.6.5 and 10.6.9 to reflect Brexit and 16.2 for best practice amendments.

#### Example reports

- Report to management
  - Updated language for gender neutrality.
- Audit exemption report
  - Updated wording to note that the CCAB accountants report guidance has recently been withdrawn.
  - Old style reports have been discontinued within this product.

#### Accounts disclosure checklists

- A32 SUMMARY Disclosure checklist summary
  - Updated to reflect SI 2018/1030 by including reference to a scheme funder of a Master Trust scheme being excluded from the small companies re
- A32 SMALL FRS 102 1A
  - Updated for the FRC's Amendments to FRS 102: UK exit from the European Union and the encouraged disclosure of early adoption of these ame
- A32 NOT SMALL FRS 102 (P\_C on or after 1 January 2019)
  - Updated for the FRC's Amendments to FRS 102: UK exit from the European Union and the requirement to disclose of early adoption of these ame
  - Updated auditor's remuneration section for clarity.
  - Updated to reflect that a section was not visible through our new method of delivery.

#### Current file documents - Planning (detailed) - Individual [P\_C on or after 15 December 2019]

- B12 Acceptance of appointment or reappointment and
- B13 Compliance with the Ethical Standard
  - Updated for FRC's Ethical Standard 2019.

#### Current file documents - Completion (detailed) - Individual [P\_C on or after 15 December 2019]

- A31 Completion checklist
  - Updated for FRC's Ethical Standard 2019.

#### Current file documents - Audit exemption

- A35 and B12 Audit exemption eligibility checklist
  - Updated criteria to reflect Brexit related legislation and SI 2018/1030.

#### Supplementary forms

- New section added with the inclusion of non-mandatory supplementary forms, including on COVID-19, Brexit and Changes to Financial Reporting

#### Update - January 2021

The A31 has been reinstated after a number of tests on accounting estimates had inadvertently been excluded.

Guidance has also been added to the Audit approach section of the B30X template.

## Update - December 2020 - Changes made in relation to the update in methodology

### December 2020 - Changes made in relation to the update in methodology

We are pleased to issue this update to your Mercia Limited Liability Partnership (LLP) Manual (dated December 2020). The principal technical changes in this December 2020 update relate to:

#### Changes to Auditing Standards

##### ISA (UK) 540 (Revised December 2018) – Auditing Accounting Estimates and Related Disclosures

In December 2018 the FRC issued a [revised ISA \(UK\) 540](#) on Accounting Estimates, to reflect changes made by the IAASB to this standard. The new standard takes effect for audits of financial statements for periods beginning on or after 15 December 2020. Several other minor consequential amendments were made to other ISAs (UK) early in 2020.

The revised standard is a complete overhaul of the previous version and introduces several key changes to the approach that must be followed when auditing all types of accounting estimate and the associated financial statement disclosures. These changes can be a difficult area. The revised standard emphasises the need for professional scepticism at all times when assessing the methods, significant assumptions and data used by management when determining accounting estimates to be included in associated financial statement disclosures.

In order to reflect the requirements of the revised standard the audit methodology now places greater emphasis on the documentation of our understanding of accounting estimates and the risks they present at the planning stage and there is a revision to the audit methodology.

##### ISA (UK) 570 (Revised September 2019) – Going Concern

In September 2019, the FRC issued a [revised version of ISA \(UK\) 570](#) on Going Concern, which is effective for audits of financial statements commencing on or after 15 December 2019, although early adoption is permitted. These revisions are in response to the requirements of the new standard being much more prescriptive. Accordingly, a number of changes have been made throughout the manual to reflect these requirements, most notably the creation of a going concern work programme.

#### Other changes

In addition to the going concern work programme within fieldwork, we have also added a subsequent events programme to fieldwork to give the same level of prominence.

Other changes to the LLP manual have been made for ISA amendments that are effective for audits of financial statements commencing on or after 15 December 2019.

See below for a full list of changes to the manual.

#### What's next?

The UK is due to complete the Brexit transitional period at 11pm on 31 December 2020. We will update your LLP manual in early 2021 for the impact of the end of the transition period.

The Ethical Standard 2019 will be pushed through your LLP manual in early 2021 to be ready for predominately periods commencing on or after 15 March 2020.

#### Contact us

We are always pleased to receive feedback on our manuals, including any improvements that you would like to see incorporated. Please contact me on [jenny.faulkner@mercia-group.com](mailto:jenny.faulkner@mercia-group.com) if you have any comments to make.

Jenny Faulkner

### December 2020 methodology and technical detailed changes

A small number of minor formatting amendments have been made to ensure consistency across the Mercia product range. In addition the following changes have been made:

#### Updated area

##### Guidance

Contents and guidance notes

- Updated for the changes made in this update.

Update 12/20 - What's changed

- Updated for the changes made in this update.

##### Example letters

Letter of representation

- Amended to include the going concern management representation requirements as set out in ISA (UK) 570 (Revised September 2019).

- Updated to reflect revised wording of the representation required from management for accounting estimates as set out in ISA (UK) 540 (Revised December 2018).

##### Example reports

New tree structure added to separate out Example reports [For periods commencing on or after 15 December 2019] and [For periods commencing before 15 December 2019]

- N/A

Unqualified audit report

- Updated to reflect the requirement in ISA (UK) 570 (Revised September 2019) to give positive conclusions regarding going concern and ISA (UK) 540 (Revised December 2018) to add a placeholder to explain the extent the audit was capable of detecting irregularities, including fraud.

##### Disclosure checklists

All - for periods commencing on or after 1 January 2019

- Updated to reflect the requirement in ISA (UK) 700 (Revised November 2019) to explain the extent the audit was capable of detecting irregularities.

FRS 102 (Non-small) - for periods commencing on or after 1 January 2019

- Updated for FRC's Amendments to FRS 102 - COVID-19-related rent concessions, Amendments to FRS 102 – Interest rate benchmark reform employer defined benefit plans.

FRS 102 Section 1A (Small)

- Updated for FRC's Amendments to FRS 102 - COVID-19-related rent concessions, Amendments to FRS 102 – Interest rate benchmark reform employer defined benefit plans.

##### Current file documents

New tree structure added to separate out the following areas [For periods commencing on or after 15 December 2019] and [For periods commencing before 15 December 2019]:

- Completion (Individual entity);

- Planning (Individual entity);

- N/A

- Planning (freeform) (Individual entity);

- Audit programmes;

- Current file indexes

Current file index

- Updated for the changes made in this update.

A21-1 - Responsible Individual review and conclusion

- New document B30X added.

A22 - Overall Review of the Financial Statements

- Amended to reflect going concern and subsequent events which now form part of the field work programme.

A25 - Audit Summary Memorandum

- Additional test 15 added in relation to ISA (UK) 540 (Revised December 2018).

A31 - Audit completion checklist

- Amended to reflect the updated work paper references regarding going concern.

- Amended to reflect the updated requirements of ISA (UK) 540 (Revised December 2018) in respect of accounting estimates.

A41 - Subsequent events update and evaluation

- Updated referencing to reflect ISA (UK) 600 (Revised November 2019).

A42 - Going concern update and evaluation

- Updated referencing to reflect ISA (UK) 600 (Revised November 2019).

- Amended to remove some core ISA (UK) 560 requirements which are now set out in the S work programme within field work. Updated conclusions judgements made.

A44 - Accounting estimates update and evaluation

- Amended to remove some core ISA (UK) 570 (Revised September 2019) requirements which are now set out in the R work programme within

	ensure that key documentation requirements are dealt within in relation to stand back requirements and key judgements made.
A51 - Written representation checklist	- New completion form to document the global conclusions on accounting estimates and to demonstrate compliance with ISA (UK) 540. - Amended to include the going concern management representation requirements as set out in ISA (UK) 570 (Revised September 2019). - Wording updated to bring into line with the requirements of ISA (UK) 540 (Revised December 2018) in respect of accounting estimates.
A52-1 - Communication with management checklist	- Amended to include the required communications with management regarding going concern as set out in ISA (UK) 570 (Revised September 2019). - The need to discuss accounting estimates with management to comply with ISA (UK) 540 (Revised December 2018) has been added.
A52-2 - Communication with those charged with governance checklist	- Amended to include the required communications with those charged with governance regarding going concern as set out in ISA (UK) 570 (Revised September 2019).
B11 - Planning checklist	- Added the requirement to consider accounting estimates as part of the risk assessment procedures, including reference to new document B3.
B11 - Planning checklist (freeform memorandum approach)	- Added the requirement to consider accounting estimates as part of the risk assessment procedures. - Added a requirement to discuss with management the contents of the other information to be presented alongside the financial statements as required by ISA (UK) 720.
B11 - Freeform planning memorandum	- Amended to reflect the requirements of ISA (UK) 570 (Revised September 2019) and ISA (UK) 540 (Revised December 2018) and related footnotes. - Amended to highlight that subsequent events are now addressed in the S programme at fieldwork.
B21-1 - Agenda for communication with management	- Amended to include the required communications with management regarding going concern as set out in ISA (UK) 570 (Revised September 2019). - Amended to better highlight the need to discuss with management the contents of the other information to be presented alongside the financial statements as required by ISA (UK) 720.
B21-2 - Agenda for communication with those charged with governance	- Added accounting estimates to the list of matters to be discussed as part of understanding the entity and its environment in accordance with ISA (UK) 540 (Revised December 2018). - Amended to include the required communications with those charged with governance regarding going concern as set out in ISA (UK) 570 (Revised September 2019).
B22 - Preliminary analytical review	- Amended opening narrative to highlight that changes in the method of determining accounting estimates may help to identify audit risks.
B23 - Audit team discussion	- Added accounting estimates as a matter to be discussed as part of the audit approach. - Amended to align audit team discussion prompts regarding going concern to ISA (UK) 570 (Revised September 2019).
B30X - Key accounting estimates summary	- New planning checklist designed to ensure compliance with the requirements of ISA (UK) 540 (Revised December 2018). A copy of this should be included in the accounting estimates.
B31 - Going concern risk assessment	- Amended to reflect the requirements of ISA (UK) 570 (Revised September 2019).
B32 - Risk assessment	- Amended to include new forms within the checklist, including PF1-10 and B30X.
B33/ Q2 / R2 / S2 - Audit plan	- Amended to reflect accounting estimates, going concern and subsequent events now being part of the field work programmes.
C - Taxation programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to make clear that current and deferred tax provisions are accounting estimates. The top of the page notes estimates, the Q programme also needs to be completed.
D - Related parties programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' at the top of the page to note that where there are key accounting estimates, the Q programme also needs to be completed.
E - Fixed assets programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to better reflect ISA (UK) 540 (Revised December 2018)'s requirements when testing accounting estimates impairment and to include testing of related disclosures. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
F - Investments programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to better reflect ISA (UK) 540 (Revised December 2018)'s requirements when testing accounting estimates impairment and to include testing of related disclosures. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
G - Stocks programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to add estimation uncertainty to be considered as part of presentation and disclosure and highlighted that estimate and to include testing of related disclosures. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
H - Income and debtors programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to add estimation uncertainty to be considered as part of presentation and disclosure and highlighted that accounting estimates and to include testing of related disclosures. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
I - Bank and cash programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended C section 'Non-audit services' to add preparation of the Analysis of Changes in Net Debt to presentation. - Amended F section 'Tests of detail' to remove obsolete reference to Practice Note 16 'Bank confirmations'. The top of the page notes that where the Q programme also needs to be completed.
J - Creditors and expenditure programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to highlight that derivatives are accounting estimates and to include testing of related disclosures. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
K - Provisions programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to highlight that provisions are an accounting estimate and to include testing of related disclosures. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
L - Members' interests programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' at the top of the page to note that where there are key accounting estimates, the Q programme also needs to be completed.
M - Wages programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to highlight that share-based payments and pension obligations are accounting estimates and to include testing of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
N - Trial balance programme	- Amended A section 'General and mandatory tests' to remove the retrospective review of accounting estimates as this is now included as part of the testing of accounting estimates as required by ISA (UK) 540 (Revised December 2018). - Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to include testing of disclosures of estimation uncertainty related to accounting estimates. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
O - VAT programme	- Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended D section 'Analytical procedures' for best practice amendment. - Amended F section 'Tests of detail' to include testing of estimated VAT obligations. The top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
P - Intra-group balances programme	- Amended A section 'General and mandatory tests' to refer to accounting estimates as part of the group-wide controls and controls related to them to be confirmed. - Amended B section 'Tests of control' of work programme to highlight the need to consider controls relevant to the making of accounting estimates. - Amended F section 'Tests of detail' to highlight that determining fair values whilst accounting for estimates are an accounting estimate and to include testing of the top of the page notes that where there are key accounting estimates, the Q programme also needs to be completed.
Q - Accounting estimates programme	- New programme created to give more prominence to certain requirements of ISA (UK) 540 (Revised December 2018) within field work. A copy of each key accounting estimate. As such we have included 5 versions of the programme (QA - QE) to tie in with 5 versions of the B30.
R - Going concern programme	- New programme created to ensure auditors obtain sufficient appropriate audit evidence for going concern in accordance with ISA (UK) 570 (Revised September 2019).
S - Subsequent events programme	- New programme, created to give more prominence to certain requirements of ISA (UK) 560 within field work.

**Permanent file documents**

New tree structure added to separate out Permanent file documents [For periods commencing on or after 15 December 2019] and [For periods commencing before 15 December 2019]	N/A
Permanent file indexes	- Updated for the changes made in this update.
PF1-1 - The entity and its environment	- Amended to reflect the requirements of ISA (UK) 570 (Revised September 2019) and ISA (UK) 540 (Revised December 2018).
PF1-3 - Laws and regulations	- Amended to add whether there are any indications of non-compliance with laws and regulations in accordance with the requirements of ISA (UK) 570 (Revised September 2019).
PF1-8 - Accounting estimates	- Amended form to provide an overview of management's approach for determining accounting estimates and to highlight expected key accounting supporting documentation for each identified key accounting estimate at B30X.
PF1-10 - Going concern	- New form to ensure that the requirements of ISA (UK) 570 in relation to understanding the entity and its environment including internal controls are addressed.
PF2-1 - Systems overview	- Amended to reflect the need to obtain an understanding of the entity's processes regarding accounting estimates, going concern and subsequent events covered elsewhere.
PF2-2 - Internal control overview	- Amended to reflect the requirements of ISA (UK) 570 (Revised September 2019), and ISA (UK) 540 (Revised December 2018) making it clear that the assessment process includes consideration of going concern and accounting estimates.
PF2-3 - Internal control summary	- Amended to reflect the need to obtain an understanding of the entity's internal controls regarding accounting estimates, going concern and subsequent events.
PF3-1 - Risk analysis	- Question added to consider whether there are accounting measurements subject to a high degree of subjectivity in accordance with the requirements of ISA (UK) 540 (Revised December 2018). - Question added to consider whether there are any indications of non-compliance with laws and regulations in accordance with the requirements of ISA (UK) 570 (Revised September 2019).

**Appendix I**

**ISA (UK) 540 (Revised December 2018) – Auditing Accounting Estimates and Related Disclosures**

In December 2018 the FRC issued a revised ISA (UK) 540 on Accounting Estimates, to reflect changes made by the IAASB to this standard.

The new standard takes effect for audits of financial statements for periods beginning on or after 15 December 2019, although early adoption is permitted. A number of other minor consequential amendments were made to other ISAs (UK) early in 2020.

The new version of the ISA includes:

- A requirement to obtain an understanding of the entity and its environment, including an entity's internal control, to provide an appropriate basis for the identification and assessment of risks of material misstatement of accounting estimates at the overall level. It should be noted that this standard was developed internationally alongside a new version of ISA (UK) 315, however, the application of these sister standards is non-terminous, with the ISA (UK) 315 revisions not coming into effect for or

- beginning on or after 15 December 2021, although early adoption is permitted. The revised ISA(UK) 540 will still work alongside the extant ISA(UK) 315, however it does include a number of concepts that are in common with the new version that
- Requirements for risk assessment at the assertion level, with the new standard explicitly requiring separate assessment of inherent risk and control risk. It also introduces the concept of the "spectrum of risk" which is part of a theme of looking at inherent risk and making a clear-sighted assessment of actual risk levels for each engagement. Control risk is based upon the likely effectiveness of the control procedures implemented by management to address the assessed inherent risks. Effectiveness of controls the assessment of control risk should be high.
- When assessing inherent risk, the degree of estimation uncertainty, the effect of complexity, subjectivity and other inherent risk factors on the selection and application by management of the methods, assumptions and data used in making the estimates and related disclosures will need to be considered.
- Other considerations relating to obtaining and documenting audit evidence around:
  - the events up to the date of the audit report;
  - testing how management made the estimate;
  - testing controls (where appropriate);
  - management's disclosures in relation to estimation uncertainty; and
  - developing an auditor's point estimate or range (requiring that the range only includes amounts supported by sufficient appropriate audit evidence).
- The updated objective requires audit procedures to address whether both the accounting estimates AND related disclosures are reasonable (rather than simply adequate, as is currently the case for the latter) in the context of the financial reporting
- Reinforced the application of professional scepticism. Enhancements include using wording to drive questioning or challenging management where appropriate; more focus on identifying indicators of possible management bias; requiring further performed in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory; and an enhanced retrospective review and an overall evaluation based on procedure
- A new requirement to remind auditors of their responsibilities to communicate certain matters to those charged with governance and to consider the matters to communicate regarding accounting estimates, considering the reasons given to the r
- Enhanced documentation requirements, particularly around:
  - understanding the entity;
  - the link between audit risks and audit procedures;
  - the response if management procedures are inadequate;
  - indicators of possible management bias and implications for the audit; and
  - significant judgements made when assessing whether or not estimates and disclosures are reasonable.

The revised standard is applicable to all estimates. It has been designed to be scalable, recognising that some estimates may not require significant judgments and the processes for making them may not be complex.

Alongside the revised ISA(UK) 540, confirming and consequential amendments have also been made to the following standards:

- ISA(UK) 200 Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK)
- ISA(UK) 230 Audit documentation
- ISA(UK) 240 The auditor's responsibilities relating to fraud in an audit of financial statements
- ISA(UK) 260 Communication with those charged with governance
- ISA(UK) 500 Audit evidence
- ISA(UK) 580 Written representations
- ISA(UK) 700 Forming an opinion and reporting on financial statements

Most of these changes are minor and have little impact. The most significant change is the inclusion for the first time of guidance for auditors within ISA(UK) 500 on the use of external information sources which are often used by auditors when assessing by management when determining accounting estimates to be reflected in the financial statements.

The publication of a revised version of ISA(UK) 540 Auditing Accounting Estimates and Related Disclosures has provided the opportunity to revisit the approach adopted by the Mercia audit methodology in addressing this complex area. In doing so we have demonstrated compliance with the requirements of the revised standard but have also overhauled the entire approach to documenting the work performed in respect of accounting estimates, from planning through to completion. The inclusion stage of the process will facilitate an efficient audit approach that concentrates on those key accounting estimates that represent a heightened risk of material misstatement in the financial statements and better enable the auditor to demonstrate that all have been complied with.

#### *The risk assessment*

The initial phase of the planning of an audit engagement is to complete a risk assessment. As with previous versions of the Audit Manual this will include completion of form PF1 The Entity and its Environment and it is here, as part of the documentation of the entity is subject to, that knowledge of the accounting estimates relevant to the entity is first recorded.

The majority of entities that are subject to audit will have one or more accounting estimates in their financial statements, and for those entities it will be necessary to complete form PF1-8 Accounting Estimates in support of the overall consideration of the Compared to the previous version of the Audit Manual form PF1-8 has been significantly updated. The purposes of this form are the following:

- To document issues relevant to understanding the entity's approach to determining accounting estimates at an entity level. This includes how management identifies the need to reflect accounting estimates in its reporting, regulatory issues and it demonstrates oversight and governance of the process, identifies areas of risk, implements general control procedures and utilises management experts.
- To record all the accounting estimates that have been identified as being relevant to the entity's financial reporting, whether or not management have reflected them in the draft financial statements presented for audit. This would include any accounting estimate to be relevant to the entity's reporting based on their understanding of the entity and the applicable financial reporting framework but may have been overlooked by the entity's management.

In recording the accounting estimates relevant to the entity, it is necessary to record whether from an audit perspective it is considered to be a key accounting estimate or not. A key accounting estimate is one with an increased possibility of there being misstatements due to estimation uncertainty or the complexity, subjectivity or other inherent risk factors involved in its determination.

For those accounting estimates that are not considered to be key accounting estimates documentation of this is required on form PF1-8, including the reason why in the professional judgement of the auditor this is the case. It may be that the accounting material impact on the financial statements due to its magnitude, or that the method used for its determination is such that the assumptions and data utilised carry no risk of significant estimation uncertainty, such that the possibility of a material misstatement considered to be remote. Such accounting estimates will not need to be considered further in planning the audit engagement.

Additional consideration is required for each key accounting estimate that has been identified. In order to better document the risk assessment of those key accounting estimates that do present a risk of possible material misstatement in the financial statements Estimates Summary has been introduced, and a separate copy of this form should be completed in respect of each key accounting estimate (eg, the X is replaced with a letter, therefore if there are three key accounting estimates, then there will be a B30).

This form records the auditor's understanding of specific issues related to that key accounting estimate. This includes issues such as those related to the entity and its environment, such as any specific requirements of the applicable financial reporting controls and other related procedures. This will set out the method utilised by the entity to determine the accounting estimate, the underlying assumptions involved, and data incorporated into the calculation, and ultimately how management select the presentation in the financial statements. The use of any management experts will be noted. Crucially the form also records how management address the level of estimation uncertainty inherent in the accounting estimate.

Form B30X also provides an opportunity for the auditor to record their review of the outcome of previous accounting estimates made in prior years and their accuracy, useful in helping to identify the risk of material misstatement in the current period.

Having identified all of the issues related to each key accounting estimate, form B30X also records the auditor's assessments of inherent risk and control risk, which in order to comply with the requirements of the revised version of ISA(UK) 540 are required. The revised standard requires inherent risk to be assessed on a spectrum, which under the Mercia methodology results in an assessment that falls between 1 (being very low) and 5 (being very high). In arriving at this determination there is an opportunity accounting estimate is affected by the following:

- Estimation uncertainty;
- The complexity, subjectivity and other inherent risk factors arising from the selection and application of the method, assumptions and data used to determine the accounting estimate; and
- The complexity, subjectivity and other inherent risk factors arising from the selection of management's point estimate and related disclosure.

The auditor's understanding of these three key issues will inform the inherent risk assessment. Clearly an accounting estimate that is simple to determine and carries little estimation uncertainty would result in a conclusion of their being minimal inherent lower end of the spectrum. Conversely an accounting estimate that exhibits considerable estimation uncertainty and requires complex modelling to determine would be assessed as being at the higher end of the spectrum.

The control risk assessment is based upon whether the auditor considers the control procedures implemented by management will be effective and will be assessed on a scale from low to high, similar to other risk assessments within the Mercia audit the operating effectiveness of controls (see below) the assessment of control risk should be high.

If there are any risks which are considered to be significant risks, they also reflected on form B32 Risk Assessment.

Lastly form B30 requires the auditor to consider whether testing of controls should be planned, where management implement control procedures in relation to the key accounting estimate.

The approach to the key accounting estimate then needs to be planned and this is recorded on B33 / Q2 Audit Plan or an alternative freeform memorandum. The planned approach must meet ISA(UK) 540's requirement to take the form of one or more of

- Obtaining evidence from events occurring up to the date of the auditor's report;
- Testing how management made the accounting estimate; or
- Developing an auditor's point estimate or range.

Whichever of the above approaches is followed, the audit procedures performed should be designed to ensure that auditors can conclude on the following issues:

- whether management has appropriately applied the requirements of the applicable financial reporting framework;
- whether the methods used to determine the accounting estimate are appropriate and have been consistently applied;
- that any changes in accounting estimates are appropriate; and
- that disclosure related to the accounting estimate included in the financial statements is reasonable.

Each individual key accounting estimate should have its own planned approach and there are duplications of the planned approach tables within the B33 / Q2 in order to facilitate this (ie, if there are three key accounting estimates, then there will be a B33 corresponding planned approaches on the B33/Q2 – that this does not require three versions of the B33/Q2 as there are duplications of the tables within the form).

For each key accounting estimates documented at B30X, we consider where management implement control procedures, whether testing of controls should be planned. Where it is deemed suitable to test controls in relation to key accounting estimates controls, or where substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, we perform the controls testing as part of the related individual audit area programme. For example, if the impairment of a particular accounting estimate and we plan to test controls then we would use the Fixed asset audit programme, B tests of controls to record our controls audit. This would also be documented on the audit plan for Fixed assets and feed through to the Fixed asset

#### *Audit fieldwork*

An entity may have several key accounting estimates, and it is likely that the procedures to be performed in respect of each will differ considerably. For example, you would not expect to adopt the same approach for testing an impairment provision and the Regardless of the nature of each individual key accounting estimate, the procedures being performed must comply with the approach required by ISA(UK) 540.

To help the auditor ensure that the standard is being complied with a new Q Audit programme for Accounting Estimates has been developed, a copy of which should be completed for each key accounting estimate being tested. This sets out the specific the three permitted audit approaches, allowing the auditor to demonstrate that they have been complied with.

There are certain requirements of the standard that will apply regardless of the approach being followed, such as whether the requirements of the applicable financial reporting framework have been complied with and that the disclosures in the financial consider whether there has been management bias. There are separate sections of the Q audit programme which deal with these requirements.

Having ensured that the key accounting estimate has been tested in accordance with the requirements of ISA (UK) 540 the form requires the auditor to conclude on whether they have obtained sufficient appropriate audit evidence on which to be able to account for the key accounting estimate. The documentation surrounding this area is critical to show compliance with the standard.

#### *Audit completion*

The updated ISA (UK) 540 includes a 'stand-back' requirement that involves performing an overall evaluation of accounting estimates based on the audit procedures that have been performed. This is performed at an individual key accounting estimate level also considered globally at the completion stage. To help demonstrate compliance with this requirement a new form has been added to the completion section, form A44 Accounting Estimates Update and Evaluation.

Using the experience gained from having completed the detailed audit work this form is used to consider whether the original risk assessment determined during the audit planning stage remains appropriate, and if not whether any additional procedure

The overview process is used to determine whether management's approach to assessing accounting estimates is reasonable or not. It helps the auditor to identify possible instances of management bias, for example where assumptions made or prior individual accounting estimate may appear reasonable but collectively demonstrates a pattern that best fits management's objectives for the company's reporting rather than a more objective, reasonable approach.

The overview is also used to ensure that the accounting estimates have been made in accordance with the applicable financial reporting framework, including any related disclosure requirements. This may include disclosures beyond that required by the framework to ensure that the financial statements show a true and fair view.

Building on the conclusions reached on the individual Q audit programmes completed for each individual key accounting estimates, the overview also provides an opportunity to document whether sufficient appropriate audit evidence has been obtained should take account of all audit evidence obtained, whether it corroborates the entries in the financial statements or is contradictory. As part of the audit evidence required the overview form is used in conjunction with form A51 Written Representations to ensure that representations need to be obtained from management or those charged with governance in respect of accounting estimates.

Working alongside form A52-1 Communication with Management Checklist the overview form is also used to detail any matters that need to be reported, including any qualitative aspects of the entity's reporting practices or significant deficiencies in internal control.

Lastly the overview form provides an opportunity for the auditor to conclude on whether, in their opinion, accounting estimates collectively are reasonable and whether sufficient appropriate audit evidence has been obtained and to document any significant conclusion. The impact on the audit opinion is also documented.

#### **ISA (UK) 570 (Revised September 2019) – Going Concern**

In September 2019, the Financial Reporting Council (FRC) issued a revised version of ISA (UK) 570 Going Concern which becomes effective for audits of financial statements for periods commencing on or after 15 December 2019. Early adoption is permitted extensively amended in light of the well-publicised criticisms of the auditing profession. ISA (UK) 570 (Revised September 2019) increases the work which auditors are required to undertake when auditing the going concern status of an entity. A summary of the key changes is as follows:

- Responsibilities of the auditor – the standard has been revised to clarify that as well as obtaining sufficient appropriate audit evidence to conclude on the appropriateness of management's use of the going concern basis of accounting, the auditor should also obtain sufficient appropriate audit evidence to conclude on whether or not a material uncertainty regarding going concern exists, this requirement being more explicit than in the previous standard.
- Definitions – the revised standard now also includes the following definitions to be applied when using ISAs (UK):
  - Management bias – A lack of neutrality by management in the preparation of information.
  - Material uncertainty related to going concern – An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, where the magnitude of its potential such that appropriate disclosure of the nature and implications of the uncertainty is necessary for, the fair presentation of the financial statements.
- Enhanced risk assessment procedures – The risk assessment procedures in the revised standard have been significantly expanded, drawing a clear link to the requirements of ISA (UK) 315, including a requirement to understand the following to meet the objectives of the standard:
  - the entity and its environment;
  - the applicable financial reporting framework; and
  - the entity's system of internal control.
- Further, should the auditor identify events or conditions which may cast significant doubt on the entity's ability to continue as a going concern which management has not previously identified or disclosed to the auditor, the standard now requires the auditor to:
  - request management to perform additional procedures to understand the effect of the events or conditions on management's going concern assessment;
  - inquire as to why management's going concern assessment failed to identify or disclose the events or conditions; and
  - perform additional audit procedures relating to the newly identified events or conditions.
- Requirements when evaluating management's assessment – While the broad requirement to evaluate management's going concern assessment is unchanged, the new standard gives much more prescriptive requirements for the auditor when evaluating the method used by management in assessing the entity's ability to continue as a going concern:
  - evaluating the relevance and reliability of the underlying data used to make the assessment;
  - evaluating the assumptions on which management's assessment is based;
  - evaluating management's plans for future actions in respect of going concern.
- The new standard also gives an explicit requirement that management's assessment needs to cover at least 12 months from the date of approving the financial statements and where this is not done, the auditor shall request management to extend the period covered by the assessment.
- Evaluating the sufficiency and appropriateness of audit evidence and consider all relevant audit evidence obtained, whether corroborative or contradictory.
- Reporting – The revised standard uses the words 'appropriate' and 'appropriateness' in terms of the disclosures made in the financial statements relating to going concern rather than 'adequate' and 'adequacy'. In the audit report, should the auditor conclude that a material uncertainty exists, a positive conclusion regarding going concern is now required under 'Conclusions related to going concern' or other appropriate heading.
- Documentation - The revised standard now also includes some specific documentation requirements which need to be recorded on the audit file (drawing on the requirements of ISA (UK) 230 which would be relevant to this standard) as follows:
  - Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to going concern;
  - Indicators of possible management bias related to going concern, if any, and the auditor's evaluation of the implications for the audit.
  - Significant judgments relating to the auditor's determination of:
    - Whether or not a material uncertainty related to going concern exists;
    - The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
    - The appropriateness of management's disclosures in the financial statements.

In light of the changes above several updates have been made throughout the Audit Manual to reflect these requirements within the methodology. Firstly, permanent file forms have been updated to reflect the specific requirements within the updated ISA going concern are reflecting in the understanding of the entity and its control environment. There is a new PF1-10 which specifically looks at understanding the entity's environment in relation to going concern.

The PF1-10 firstly identifies the events or conditions regarding the going concern status by reviewing the information of PF1 relating to the following areas:

#### *Entity's business model, objectives, strategies and related business risks*

Through understanding the above, auditors will obtain information that is relevant in identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and whether a material uncertainty related to going concern exists.

- developments in the environment where the entity operates (eg. a potential related business risk might be increased costs, loss of market share);
- new products and services (eg. leading to increased product liability);
- expansion of the business (eg. demand has not been accurately estimated); and
- current and prospective financing requirements (eg. current financing requirements may be approaching maturity without realistic prospects of renewal or repayment).

*The nature of the entity, including its operations, the types of investments or disposals the entity is making and plans to make, and how the entity is structured and financed*

Through understanding the above, auditors will obtain information that is relevant in identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and whether a material uncertainty related to going concern exists.

- whether the entity has a complex structure or large in size;
- whether the entity has any financial obligations / undertakings / guarantees, with lenders / suppliers / group entities and the terms of those facilities.

After identifying events or conditions regarding the going concern status, consideration of the entity's risk assessment process is required:

- the risk assessment process identifies relevant business risks and assesses their significance; including likelihood and impact;
- the information system identifies and captures events or conditions, that individually or collectively may threaten the entity's ability to continue as a going concern;
- the methods, assumptions and data used in assessing its going concern status are identified by management. This may include how they determine the relevance and accuracy of the method, how they determine that assumptions are relevant to the method, data and assumptions;
- management prepares disclosures relating to going concern for its financial statements;
- the nature and extent of oversight and governance over management's assessment process. Auditors' will assess whether those charged with governance have the skills and knowledge to understanding how characteristics of the method used ability to continue as a going concern and as to whether the assessment fulfils the requirements of the financial reporting framework. This final element is also covered on the B21-1 and B21-2.

The understanding reflected in these forms then leads to an updated B31 risk assessment. This revised form guides users to consider if any events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue material uncertainty regarding going concern. The form then prompts auditors to obtain a copy of management's initial going concern assessment and document the understanding of how this was made. Auditors are then required to evaluate if the per from the expected date of approving the financial statements and where it does not, this should be discussed with the client, noting the key points from the discussed and considering the impact this has on your risk assessment. Auditors inquire with the conditions beyond the period initially assessed and the potential significance of these on their assessment of the entity's ability to continue as a going concern and then, considering management's assessment as whole, evaluate if their assessment or may cast significant doubt on the entity's ability to continue as a going concern.

An important aspect is that auditors evaluate whether factors, events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias.

When reflecting on this risk assessment process auditors ensure they have updated and reviewing relevant permanent file documents. If through their risk assessment process, additional factors, events or conditions that cast significant doubt over the concern have been identified by the auditor, auditors must inquire as to why management failed to identify or disclose those factors, events or conditions. An overall conclusion should then be summarised as to whether events or conditions [have / have or collectively, cast significant doubt on the entity's ability to continue as a going concern and there is a [low / medium / high] risk that a material uncertainty related to going concern exists; and [low / medium / high] risk that managements use of the going preparation of the financial statements is inappropriate. Any specific risks noted should be added to B32 and B33 / R2. The audit approach should be planned on B33 / R2 and the R audit programme tailored accordingly.

Given the increased emphasis on the auditors work around going concern, a dedicated audit programme has been created to give a greater focus on the work needed during core field work. This takes a number of the procedures that were previously part with a number of mandatory procedures now required in the revised version of ISA (UK) 570 and is set out in Section R of the work programmes. For consistency, the same change has been made for work required over subsequent events, with certain part in A41 now being included in Section S of the work programme. Given the nature of these areas, these sections only contact 'General and Mandatory' procedures, given the other work programmes seen in other areas are not considered applicable.

While the majority of work required over going concern (and subsequent events) has been moved into field work per the changes set out above, A41 & A42 have been retained for a final update and evaluation prior to finalising the engagement. The document made and the impact on the audit opinion should be reflected here and are also documented on the Audit Summary Memorandum at A25.

The example reports included within the manual have also been updated to reflect the reporting requirements set out in the revised version of ISA (UK) 570. In addition the a standard opinion, which reflects a positive conclusion regarding there not being concern and that managements use of the going concern basis of accounting in preparing the financial statements is appropriate, there is now also a template which reflects a material uncertainty relating to going concern.

Other recent changes to ISAs (UK)

Alongside the recent update to the FRC Ethical Standard in December 2019, the FRC issued a number of relatively minor revisions to the following ISAs (UK) that take effect for accounting periods commencing on or after 15 December 2019:

- ISQC (UK) 1 Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements
- ISA (UK) 220 Quality control for an audit of financial statements
- ISA (UK) 250A Consideration of laws and regulations in an audit of financial statements
- ISA (UK) 250B The auditor's statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector
- ISA (UK) 260 Communication with those charged with governance
- ISA (UK) 600 Special considerations – audits of group financial statements (including the work of component auditors)
- ISA (UK) 620 Using the work of an auditor's expert
- ISA (UK) 700 Forming an opinion and reporting on financial statements
- ISA (UK) 701 Communicating key matters in the independent auditor's report
- ISA (UK) 720 The auditor's responsibilities relating to other information

As can be seen from the list above, the changes affect a broad selection of the ISAs, although the main changes focus on four principal areas.

#### Laws and regulations

There are requirements for greater consideration of whether there are any indications of non-compliance with the legal and regulatory framework in which the audited entity operates. Additional work will be required as part of the auditor's risk assessment includes improved guidance on circumstances which may indicate that such non-compliance has taken place.

The changes also emphasise the importance of qualitative factors when considering whether non-compliance is material and may require disclosure in the financial statements. PF1-3 and the related guidance in the Audit Procedures Manual has been

#### Groups

As an area that has been repeatedly found to be poorly addressed in practice, it is perhaps no surprise that the guidance has been improved to clarify the level of work that the revised ISA (UK) 600 expects when considering the work performed by comp

The whole standard has been rearranged to put together all the elements relating to component auditors and, although there was already published guidance on this, in a FRC Staff Guidance Note, moving sections of the standard into the body of ISA (UK) emphasises how important it is to get this right. There is also guidance included for how the group auditor should respond if it is unable to gain access to the component auditor's working papers, and clarity about where responsibility lies for setting per audit opinion. The Merica audit methodology already included the guidance from the FRC Staff Guidance Note and so there is no change to the methodology although cross references to the new paragraphs included in the standard are included in both Procedures Manual.

#### Reporting

Possibly the biggest impact outside of the ISA 540 and ISA 570 changes for the majority of auditors will be the introduction of what is intended to be a bespoke paragraph in each audit report. It is required to explain to what extent the audit was considered including fraud. The FRC's own impact assessment noted that it was expected that this additional requirement would take an additional one manager hour per engagement, though in reality this will undoubtedly vary considerably from one engagement

The example report included within the manual has also been updated to reflect the reporting requirements set out in the revised version of ISA (UK) 700. This includes a section for you to set out the extent the audit was considered capable of detecting included guidance within the Audit Procedures Manual to help guide auditors as to what could be included in this section.



## Update - December 2020 - Changes made in relation to the new method of delivery

Set out below is a list of all of the documents that have been revised in this update, along with a brief explanation of how they have changed.

Pages to be changed	Main reason for change
<b>All</b>	
All	<ul style="list-style-type: none"> <li>- The creator tool has been withdrawn, so areas of the LLP Manual required are selected from the webpage instead. Users are able to 'customise' a pack of documents and then download and save the documentation in order to complete.</li> <li>- The overall document hierarchy has been amended to be more intuitive. 'Permanent file documents' is now the final section of this manual (also see comments sections have been re-ordered).</li> </ul>
<b>Guidance and Procedures</b>	
All	<ul style="list-style-type: none"> <li>- Section renamed to 'Guidance' from 'Section A - Guidance notes'.</li> </ul>
Contents	<ul style="list-style-type: none"> <li>- Contents page updated to reflect the new format and method of delivery.</li> </ul>
Guidance and procedures	<ul style="list-style-type: none"> <li>- Chapter referencing has been updated to reflect the new method of delivery.</li> <li>- A number of other minor amendments to reflect best practice and standardise guidance notes across the Mercia product range.</li> </ul>
Getting started for new manual users	<ul style="list-style-type: none"> <li>- Revised set of guidance notes has been included to reflect the updated method of product delivery.</li> </ul>
Whats changed	<ul style="list-style-type: none"> <li>- A copy of this document.</li> </ul>
<b>Example letters</b>	
All	<ul style="list-style-type: none"> <li>- Section renamed to 'Example letters' from 'Section B - Example letters'.</li> </ul>
Engagement - covering letter	<ul style="list-style-type: none"> <li>- A number of amendments to reflect best practice and standardise engagement letters across the Mercia product range.</li> </ul>
Engagement - schedule of professional services	<ul style="list-style-type: none"> <li>- A number of amendments to reflect best practice and standardise engagement letters across the Mercia product range.</li> </ul>
Engagement - standard terms of business	<ul style="list-style-type: none"> <li>- 'Term of business' renamed 'Standard terms of business', along with a number of amendments to reflect best practice and standardise engagement letters.</li> </ul>
Representation letter	<ul style="list-style-type: none"> <li>- A number of minor amendments to reflect best practice and standardise engagement letters across the Mercia product range.</li> </ul>
<b>Example reports</b>	
All	<ul style="list-style-type: none"> <li>- Section renamed to 'Example reports' from 'Section C - Example reports'.</li> <li>- A number of minor amendments to reflect best practice and standardise engagement letters across the Mercia product range.</li> </ul>
<b>Example accounts</b>	
All	<ul style="list-style-type: none"> <li>- Section renamed to 'Example accounts' from 'Section D - Example accounts'.</li> </ul>
<b>Accounts disclosure checklists</b>	
All	<ul style="list-style-type: none"> <li>- Section renamed to 'Accounts disclosure checklists' from 'Section E - Accounts disclosure checklists'.</li> <li>- The references given to the disclosure checklists, including the summary, have been amended to reflect the new system of product delivery. Titles have also had clearer descriptions.</li> <li>- All guidance is now shaded grey and in small italics to aid users in completing these documents.</li> <li>- Areas which used to be shaded grey (eg. where qualifying entities may take advantage of disclosure exemptions) are now marked with a symbol (eg. an orange shaded text).</li> </ul>
All except A32 Summary Disclosure checklist summary	<ul style="list-style-type: none"> <li>- The "Section N/A" column has been removed, instead users select "N/A" from the column options situated against the section headings, where needed, to reflect addition, the heading "Compliance" above the column options has been removed.</li> </ul>
<b>Current file documents</b>	
All	<ul style="list-style-type: none"> <li>- Section renamed to 'Current file documents' from 'Section G - Current file documents'.</li> <li>- The hierarchy of the content in this section has been amended to be more intuitive, with sections now being presented in the order they would appear in an audit (Planning, then Audit programmes).</li> <li>- For consistency across the Mercia product range, specific references in the main body of forms to 'ISA (UK)' have been replaced with 'ISA', with guidance notes to make it clear these refer to ISAs (UK).</li> <li>- For consistency of presentation, under all subheadings within a completion form, procedure numbering now reverts back to 1 (for example within A21-1 procedure the heading 'Approval and signature').</li> </ul>
All completion documents	<ul style="list-style-type: none"> <li>- For consistency of presentation, under all subheadings within a completion form, procedure numbering now reverts back to 1 (for example within A21-1 procedure the heading 'Approval and signature').</li> </ul>
A21-1 - Responsible Individual Review And Conclusion	<ul style="list-style-type: none"> <li>- Procedures 1-13 now sit under a heading 'Audit finalisation'.</li> <li>- The heading 'Confirmation of signing / completion' has been replaced with 'Approval and signature'.</li> <li>- Conclusions now have explicit options to 'tick as appropriate', rather than being a strike through 'delete as appropriate'.</li> <li>- 'Reappointment considerations' have been separated into their own section under 'Conclusions and Audit Opinion'.</li> </ul>
A21-2 - Engagement Quality Control Review Checklist	<ul style="list-style-type: none"> <li>- Column headings 'Comments' and 'Initials' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.</li> <li>- The procedures on this form have been re-ordered, to be better grouped for the objectives they achieve, with 8 &amp; 9 now being under the heading 'Integrity, objectivity and independence' and 5 now being under a heading 'Matters arising during the assignment' and 6, 2, 7 &amp; 10 now being under the heading 'Final review and reporting'.</li> </ul>

Items to be changed	Main reason for change
Ethics review	- Improved styling guidance notes for the relevant section have been re-formatted.
A22 - Overall Review Of The Financial Statements	- Within the 'Review points' section, the column headings 'Sch Ref', 'Clearance' and 'Initials/Date' have been consolidated under the heading 'Schedule refer initials and date'.
A25 - Audit Summary Memorandum	- Column headings 'Comments' and 'Initials' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'. - For improved styling guidance notes for the relevant section have been re-formatted. - The column heading 'Clearance' has been renamed 'Justification for clearance', to encourage more appropriate responses.
A27 - Summary Of Msstatements	- For improved styling the materiality section has been re-formatted, with the conclusion section now having options to 'tick as appropriate', rather than being appropriate'.
A31 - Audit completion checklist	- For clarity, confirmation that ISA references refer to ISA's (UK) is now in the guidance notes at the top of the form. - The column headings 'Yes, No or N/A' and 'Comments' have been consolidated under the heading 'Yes/No (add comments as needed)' to better reflect the e - Footnote explaining point 7 is relevant for accounting periods beginning on or after 15 December 2017 has been removed given all year ends now being audi
A41 - Subsequent Events Checklist	- Column headings 'Comments' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)' to encourage m - For clarity the conclusion section now cross references to A42 for going concern considerations. - For clarity the section for updates prior to signing is now headed 'Update to the audit report date'.
A42 - Going Concern Work Programme	- Column headings 'Comments' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.
A51 - Written Representations Checklist	- The 'Comments' column has been renamed 'Notes (refer to other schedules where applicable)' to encourage more complete commentary. - For clarity, confirmation that ISA references refer to ISA's (UK) is now in the guidance notes at the top of the form. - For clarity, the section for updates in respect of additional procedures performed up to the date of signing has been separated from the 'Conclusions' section 'Update to the audit report date'.
A52-1 - Communication With Management Checklist	- Guidance notes to indicate that any communication with those charged with governance, where different from management, should be recorded on B21-2 ha for clarity. - Column headings 'Sch Ref' and 'Comments' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.
A52-1 - Communication With Those Charged With Governance Checklist	- The 'Comments' column has been renamed 'Notes (refer to other schedules where applicable)' to encourage more complete commentary. - Column headings 'Sch Ref' and 'Comments' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.
All planning documents	- For consistency of presentation, under all subheadings within a completion form, procedure numbering now reverts back to 1. (for example within B12 proced under the heading 'Long association with the audit engagement').
B11 - Planning Checklist	- Column headings 'Notes' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.
B13 - Compliance With The Ethical Standard	- 'N/A' has been removed from the response column given questions should generally only require a 'Yes' or 'No' answer, although a prompt has been added where enhanced explanation is required. - Prompts to 'tick as applicable' have been added where the form gives multiple options for the response. - The Acceptance of appointment or reappointment form has been consolidated under one reference 'B13-1'. - A 'Consultation and communications' section has been added to separate any communications with the firm's ethics partner and the client from the final con - The conclusion section has been renamed 'Responsible Individual judgement and conclusion' and now includes space for RI judgement to be recorded, wit tick options rather than a strike through to make the choice clearer.
B14 - Preliminary Engagement Quality Control Review	- The columns 'Comments' and 'Initials' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.
B21-1 - Communication With Management	- The conclusion section has been renamed 'EQC reviewer conclusion' for clarity. - The title of the form has been shortened to 'Communication with management'. - Guidance notes to indicate that any communication with those charged with governance, where different from management, should be recorded on B21-2 ha for clarity. - The heading 'Discussions must, as a minimum, include the areas noted below' has been replaced with 'Record of the communication', with additional guida discussion.
B21-2 - Communication with those charged with governance	- Column headings 'Response / matters arising' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'. - The title of the form has been shortened to 'Communication with those charged with governance'. - The heading 'Discussions must, as a minimum, include the areas noted below' has been replaced with 'Record the communication', with additional guidanc discussion. - Column headings 'Response / matters arising' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'. - Guidance notes regarding capturing the discussion(s) have been moved to the top of the form for clarity and the summary of points to discuss is now under th
B23 - Audit Team Discussion	-
B31 - Going Concern Preliminary Assessment	- For clarity the form now includes a Y/N response column for factors to consider.
B32 - Risk Assessment	- For clarity the strike-through options for risk levels in the conclusions have been replaced with tick boxes.
B33 - Audit Plan - All	- For clarity the guidance notes have been moved to the top of the forms. - The options to select the audit programmes required now sit above the area to record more detailed comments.
B41 - Materiality	- Guidance notes have been moved to the top of the form for clarity. - The table has been reformatted for clarity, with 'Basis for determining materiality' section being merged into the 'Materiality for the financial statements as a w below which misstatements are clearly trivial' and 'Audit areas requiring other levels of materiality' not being under a heading of 'Trivial threshold and other le - The area to update for final materiality has been given more prominence in its own section at the end of the form.
B11 - Planning Checklist – Freeform Memorandum Approach	- Across all areas, column headings 'Notes' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.
B11 - Freeform Audit Planning Memorandum	- For ease of use, this form is now contains more tick box options, rather than having to tailor and lock the form prior to printing. - Other minor amendments have been made to reflect best practice guidance and ensure consistency across the Mercia product range.
Audit programmes - all	- The structure and referencing of work programmes has been amended to reflect the new method of delivery and best practice. - Across all the work programmes, the heading 'Sch ref / Work done' has been replaced with 'Notes (refer to other schedules where applicable)'. - E1 – This section is now titled 'E Test of detail (blank programme)'. - E2 – This section is now titled 'F Test of detail (tailorable programme)'.
Current file indexes - sections C to P	- The sign-offs on these forms have been updated from 'Signed by' to 'Prepared by' to be consistent with other sign-offs within the manual.

**Permanent file documents**

Pages to be changed	Main reason for change
All	<ul style="list-style-type: none"> <li>- Section has been renamed to 'Permanent file documents' from 'Section F - Permanent file'.</li> </ul>
New and existing client customer due diligence forms	<ul style="list-style-type: none"> <li>- Across all the permanent file forms, column headings 'Notes' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'. The client customer due diligence forms have been removed from the manual, as these should be completed in line with the guidance and procedures in the compliance manual. The new client checklist is still included within this manual, however.</li> </ul>
PF1-1 - The Entity and its environment	<ul style="list-style-type: none"> <li>- Given it is one form, PF1-1 and PF1-2 have been merged, with PF1-2 now being an omitted reference.</li> </ul>
PF1-3 - Laws and regulations	<ul style="list-style-type: none"> <li>- This form has been reformatted to give space for commentary under the items to consider, rather than to the right, as this provides more space for documents.</li> </ul>
PF1-4 - Related parties	<ul style="list-style-type: none"> <li>- To emphasise the requirements when recording related parties the guidance 'You should include all known related parties, regardless of whether or not they have been moved from an end note to be part of the core content on the form.'</li> </ul>
PF1-6 - Using a service organisation	<ul style="list-style-type: none"> <li>- This form has been reformatted to give space for commentary under the items to consider, rather than to the right, as this provides more space for documents.</li> </ul>
PF1-7 - Using the work of an expert	<ul style="list-style-type: none"> <li>- This form has been reformatted to give space for commentary under the items to consider, rather than to the right, as this provides more space for documents.</li> </ul>
PF1-8 - Accounting estimates	<ul style="list-style-type: none"> <li>- The 'Planned approach' section of this form has been reformatted to give space for commentary under the items to consider, rather than to the right, as this provides more space for documentation.</li> </ul>
PF2-2 - Internal control overview	<ul style="list-style-type: none"> <li>- For clarity, the items to consider have now been listed as bullet points, rather than a single body of text.</li> </ul>
PF2-4 - Using The Work Of And Communication With Internal Auditors	<ul style="list-style-type: none"> <li>- Across all areas, column headings 'Notes' and 'Sch Ref' have been consolidated under the heading 'Notes (refer to other schedules where applicable)'.</li> </ul>
PF3-1 - Risk analysis	<ul style="list-style-type: none"> <li>- The 'Y/N' column has been removed, to encourage more qualitative discussion of risk factors, with the 'Comments / other factors' column being replaced with 'Notes (refer to other schedules where applicable)'. The guidance notes have been updated and moved to the top of the page to also reflect this.</li> </ul>
PF3-2 - Fraud risk analysis	<ul style="list-style-type: none"> <li>- The 'Y/N' column has been removed, to encourage more qualitative discussion of risk factors, with the 'Comments / other factors' column being replaced with 'Notes (refer to other schedules where applicable)'. The guidance notes have been updated and moved to the top of the page to also reflect this.</li> </ul>

