# Update - April 2022

## What's changed

We are pleased to issue updates to your Mercia Audit Procedures Manual (dated 04/22). The principal technical changes in these updates relate to:

* Changes to ISA 315 Identifying and assessing the risks of material misstatement; and
* The introduction of the new suite of Quality Management Standards.

The revised ISA 315 applies for accounting periods commencing on or after 15 December 2021, with early adoption permitted. The revised suite of Quality Management Standards (ISA 220, ISQM 1 and ISQM 2 are effective from 15 December 2022, with early adoption permitted).

We have also taken the opportunity to update the method of delivery for the appendices included within the manual. All of these are now delivered in the same way as the rest of the manual, they are no longer separate attachments.

### Changes to ISA 315 Identifying and assessing the risks of material misstatement

In December 2019, the IAASB issued a revised ISA 315.

The revised standard is a complete overhaul of the previous version and introduces many key changes to the approach that must be followed when identifying and assessing risks of material misstatement including:

* Restructured and revised requirements in connection with understanding the entity and it's environment, the applicable financial reporting framework and the entity's system of internal control;
* The introduction of the concept of a spectrum of inherent risk when assessing risks of material misstatement (a concept which will be familiar from previous revisions to ISA 540 Accounting estimates and related disclosures);
* A requirement for separate assessment of inherent and control risk;
* Increased focus on information technology and general IT controls; and
* New stand-back requirements in a number of areas.

In order to reflect the requirements of the revised standard, the audit methodology has been revised with most planning forms having been updated or replaced, and many consequential amendments to other forms too. Most notably, the methodology now places much greater emphasis on controls (including general IT controls) and requires greater detail when identifying and assessing the risks of material misstatement at both the financial statement and assertion levels.

The updates to the methodology for the ISA revisions have necessitated a restructure of the planning and permanent file sections of the Audit Manual. The restructure should facilitate a better flow through these sections of the Audit Manual.

The revised ISA also made a number of consequential amendments to other ISAs which have been reflected in the methodology.

The Audit Procedures Manual has been updated to reflect these changes.

Because of the significance of the amendments resulting from the  changes to ISAs 240 and 315 two versions of some sections of this manual have been included: one for periods commencing before 15 December 2021 reflecting the previous ISA requirements and another for periods commencing on or after 15 December 2021 reflecting the new versions.

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

### The introduction of the new suite of Quality Management Standards.

In December 2020, the IAASB issued a revised suite of Quality Management Standards. The suite includes:

* ISA 220 (Revised) Quality management for an audit of financial statements;
* ISQM 1 Quality management for firms that perform audits or reviews of financial statements, or other assurance related services engagements; and
* ISQM 2 Engagement quality reviews.

The new standards adopt a risk based approach to quality management, representing a significant shift in approach from the current versions. Mercia's new Quality Management Manual addresses the requirements of these standards and offers extensive guidance and support for firms in their adoption and application.

A number of sections of the Audit Procedures Manual will cease to be relevant once the new quality management standards are adopted (15 December 2022, with early adoption permitted) and these have been labelled as such.

### Other changes

In addition, throughout the manual a number of minor updates have been made to reflect best practice and maintain consistency throughout the Mercia product range.

## 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.

Andy Holton

April 2022

## April 2022 - detailed list of changes

The below table provides a detailed list of changes within the manual. In addition to the items listed below, cross-references to other forms have been updated where appropriate, and minor changes have been made for formatting, grammar, consistency of naming (within group sections) and other editorial amendments. Any content which was relevant for periods commencing prior to 15 December 2019 has been removed.

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| Updated area | Main reason for change |
| A Guidance notes |  |
| What’s changed | * A copy of this What's changed notice has been added to the manual. |
| B General audit procedures (p/c on or after 15 December 21) |  |
| General audit procedures | * Updated to reflect the revised methodology due to the revisions to ISA 315 and other best practice amendments. * New appendices added to B.4 to provide additional guidance in inherent risk, general IT controls and fraud risk factors. |
| C Specific procedures by audit area (p/c on or after 15 December 21) |  |
| Specific procedures by audit area | * Updated to reflect the revised methodology due to the revisions to ISA 315 and other best practice amendments. |
| D Code of Ethics |  |
| Code of Ethics | * Minor consequential amendments due to the above changes. |
| E Regulation and quality control |  |
| Regulation and quality control | * New section added on Audit engagement partner review in connection with the revised quality management standards. * Guidance added to highlight the sections which will no longer apply when the revised quality management standards are adopted. |
| Appendix E1 Annual declaration form for individuals | * Combines the independence form for individuals, fit and proper form for individuals and confidentiality form for individuals (previously A1, A3 and A4). * Moved into new format so it no longer needs to be downloaded as a separate attachment. * Guidance added to highlight this form will no longer be relevant once the new quality management standards are adopted. New documentation is available in the Quality Management Manual. |
| Appendix E2 Fit and proper form for the firm | * Renamed from "A2" for clarity. * Moved into new format so it no longer needs to be downloaded as a separate attachment. * Guidance added to highlight this form will no longer be relevant once the new quality management standards are adopted. New documentation is available in the Quality Management Manual. |
| Appendix E3 Staff appraisal form | * Renamed from "A5" for clarity. * Moved into new format so it no longer needs to be downloaded as a separate attachment. |
| Appendix E4 File review checklist (p/c before 15 Dec 21) | * Renamed from "A6" for clarity. * Moved into new format so it no longer needs to be downloaded as a separate attachment. |
| Appendix E4A File review checklist (p/c on or after 15 Dec 21) | * New version of the file review checklist added to address revisions to ISA 315 and other best practice amendments. |
| Appendix E5 Internal quality control checklist | * Renamed from "A7" for clarity. * Moved into new format so it no longer needs to be downloaded as a separate attachment. * Guidance added to highlight this form will no longer be relevant once the new quality management standards are adopted. New documentation is available in the Quality Management Manual. |