# Update - April 2022

## What's changed

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

* Changes to ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements;
* 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 240 and ISA 315 apply 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).

### Changes to ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements

In May 2021, the FRC issued a revised ISA (UK) 240.

The revisions build on the earlier version of the standard, with the aim of addressing concerns that auditors are not doing enough to detect material fraud and that this may, at least in part, be due to a lack of clarity as to their obligations with respect to fraud. In addition to a greater focus on processional scepticism, the objectives of the auditor have been updated and a number of new requirements have been introduced. These have been incorporated into the methodology.

As part of the update, as well as revisions to existing forms, a new form at both the planning and completion stages has been added to address the revised requirements and ensure that fraud is given appropriate prominence within the methodology.

See below for a full list of changes to the Audit Manual.

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

In July 2020, the FRC issued a revised ISA (UK) 315 to reflect changes made by the IAASB to the standard.

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 manual. The restructure should facilitate a better flow through these sections of the manual. See below for a mapping of old to new references.

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

See below for a full list of changes to the Audit Manual.

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

In July 2021, the FRC issued a revised suite of Quality Management Standards. The suite includes:

* ISA (UK) 220 (Revised July 2021) Quality management for an audit of financial statements;
* ISQM (UK) 1 Quality management for firms that perform audits or reviews of financial statements, or other assurance related services engagements; and
* ISQM (UK) 2 Engagement quality reviews.

Updates have been made to the Audit Manual to include a new version of the preliminary engagement quality control review form, a new version of the engagement quality control review checklist and a new version of the consultation / ethics review form. From 15 December 2022 (or earlier if the firm early adopts the new quality management suite of standards) the versions denoted 'ISQM version' should be used. Before this time the versions denoted 'ISQC version' should be used.

### What's changed in the sector?

There have been a number of regulatory and legislative changes, including the The Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022. The guidance notes have been amended to reflect the changes made.

#### Guidance from PRAG

PRAG'S 2021 ESG Working Party Guidance

This guidance was published in December 2021 has been produced to help preparers of annual reports navigate their way through the regulatory requirements for the new Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements which came into effect from 1 October 2021 for certain schemes. Although primarily aimed at trustees, the guidance does outline the disclosure requirements within the Financial Statements and considers the resulting audit implications. The guidance notes and the accounts disclosure checklist have been amended to reflect the guidance. PRAG have stated that the guidance will be kept under review and updated as regulatory changes occur and practices develop.

### What’s next?

As mentioned in our previous update, we are expecting revised guidance from PRAG in respect of accounting for derivatives. In addition, a new Code of Practice is expected to be issued next year, following consultations in 2021, details in respect of which can be found [here](https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice).

## 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.

|  |  |
| --- | --- |
| Updated area | Main reason for change |
| Guidance |   |
| Contents & guidance notes | * Contents page and guidance notes updated for the changes made in this update and in respect of the legislative changes and new Task Force on Climate-related Financial Disclosures reporting requirements.
 |
| Getting started for new manual users | * Getting started guidance updated for the changes made in this update.
 |
| What’s changed | * A copy of this What's changed notice has been added to the manual.
 |
| File review checklists | * Moved into a new format.
* A new version for p/c on or after 15 December 2021 added.
 |
| Example letters |   |
| 4 Engagement - terms of business | * Minor change to reflect ICAEW Code of Ethics requirements in respect of commissions.
 |
| 5A Letter of representation (p/c on or after 15 Dec 21) | * Minor change to reflect revised requirements of ISA 240 in connection with written representations.
* Minor amendments to reflect this version is for periods commencing on or after 15 December 2021.
 |
| Example accounts |   |
| All example accounts | * Minor updates for consistency, removal of dates which are no longer relevant and recent changes to reporting requirements.
 |
| Accounts disclosure checklists |   |
| A32 Pension Schemes Annual Report Checklist | * Updated for the new Task Force on Climate-related Financial Disclosures reporting requirements.
 |
| Current file: Current file indices (p/c on or after 15 Dec 2021) |   |
| Current file indices | * Moved to start of current file.
* Updated to reflect revised file structures.
 |
| Current file: Completion (p/c on or after 15 Dec 2021) |   |
| A21-1 Responsible individual review and conclusion | * Update to footnote.
 |
| A21-2 Engagement quality control checklist (ISQC version) | * Renamed to highlight this version of the form applies before the new quality management standards are adopted.
 |
| A21-2 Engagement quality checklist (ISQM version) | * A new version of the form applicable when the new quality management standards are adopted.
 |
| A21-3 Consultation / ethics review (ISQC version) | * Renamed to highlight this version of the form applies before the new quality management standards are adopted.
 |
| A21-3 Consultation review (ISQM version) | * A new version of the form applicable when the new quality management standards are adopted.
 |
| A25 Audit summary memorandum | * Additional section added for key points and work performed over opening balances and consistency of accounting policies as part of best practice amendments.
 |
| A27 Summary of misstatements | * Minor amendments to footnotes for clarity and consequential changes as a result of amendments for ISA 240.
 |
| A29 Reporting on irregularities, including fraud in the auditor's report | * Additional comment in guidance notes as a result of a consequential amendment made to ISA 700 by the revised ISA 315.
 |
| A31 Audit completion checklist | * Minor updates throughout for changes in terminology and requirements in connection with updates to ISAs 240 and 315.
* New procedure added with respect to consistency of accounting policies.
* Several procedures in respect of fraud have been removed from this form as they are now included in the new A46 instead.
* Procedures updated to remove reference to "For periods commencing on or after 15 March 2020" as this date has now passed.
* Several procedures have been re-ordered to give a more logical flow to the form.
 |
| A45 Audit data analytics and other technology update and evaluation | * Reference changes only.
 |
| A46 Fraud update and evaluation | * New form to evaluate key matters with respect to fraud in the completion section, based on the updated ISA 240 requirements.
 |
| A51 Written representations checklist | * Minor updates to reflect changes in ISA 240.
 |
| A52-1 Communication with management checklist | * Minor updates to reflect changes in ISA 240.
 |
| A71 Final analytical procedures | * Additional bullet point added with respect to the revised ISA 240.
 |
| Current file: Planning (detailed) (p/c on or after 15 Dec 2021) |   |
| B01 Planning checklist | * Moved from B11.
* Guidance notes updated to reflect ISA 315 changes.
* First section renamed pre planning.
* Minor amendments to items for clarity, best practice and ISA 315 changes.
* New item added requiring completion of new fraud risk assessment form B34 which incorporates changes to ISA 240.
* New items added to risk assessment procedures and risk assessment / audit approach in relation to team meetings and team briefings given these have now been split in the methodology, and the team meeting section of this form has been removed as a result.
 |
| B02 Audit strategy | * New form to ensure best practice in relation to an audit strategy is followed.
 |
| B03 Preliminary engagement quality control review (ISQC version) | * Moved from B14.
* Renamed to highlight this version of the form applies before the new quality management standards are adopted.
 |
| B03 Preliminary engagement quality review (ISQM version) | * A new version of the form applicable when the new quality management standards are adopted.
 |
| B10 Engagement review | * New form to summarise the acceptance and appointment section.
 |
| B11 Acceptance of appointment or reappointment | * Moved from B12.
* Minor amendments due to restructure of the planning and PF sections.
* Removed references to "For periods commencing on or after 15 March 2020" as this date has now passed.
 |
| B12 Compliance with the Ethical Standard | * Moved from B13.
* Minor amendments due to restructure of the planning section.
* Minor amendments related to the introduction of the new quality management standards.
* Removal of references to "For periods commencing on or after 15 March 2020" and "For periods commencing before 15 March 2020" and consequential updates to footnotes, as this date has now passed.
* Minor update to wording in consultation and communication section to reflect best practice terminology.
 |
| B13 New client checklist | * Moved from PF1.
 |
| B14 Opening balances and consistency of accounting policies | * New form to assist in gathering sufficient appropriate audit evidence over opening balances and consistency of accounting policies.
 |
| B15 Terms of engagement - placeholder | * New placeholder added.
 |
| B20 Information gathering summary | * New form to summarise the information gathering section.
 |
| B21 Audit data analytics assessment | * Moved from B20.
* Minor amendments for clarity.
 |
| B22-1 Communication with management | * Moved from B21-1.
* Minor updates to fraud risk section to address ISA 240 changes.
* New footnote added with additional guidance.
 |
| B22-2 Communication with those charged with governance | * Moved from B21-2.
* "Agenda for" removed from title.
* Minor updates to fraud risk section to address ISA 240 changes.
 |
| B23 Preliminary analytical review | * Moved from B22.
* Update to objective in relation to the revised ISA 240.
* Updated guidance notes in relation to the revised ISA 240.
* New box added to conclusions section in relation to the revised ISA 240.
 |
| B24 Design and implementation of controls | * New form to summarise design and implementation of controls as part of the revised ISA 315 requirements.
 |
| B24X Control form | * New form to document design and implementation of controls as part of the revised ISA 315 requirements.
 |
| B25 Materiality | * Moved from B41.
 |
| B27 Company searches - placeholder | * New placeholder added.
 |
| B30 Inherent and control risk assessment | * New risk assessment form to comply with the requirements of the revised ISA 315 (replaces the previous B32).
 |
| B31X Assertion level risk | * New form to assess risk of material misstatement at the assertion level as part of the revised ISA 315 requirements.
 |
| B32X Key accounting estimate | * Moved from B30X.
* Update to guidance notes to reflect the revised ISA 315 requirements.
* Changes to form to reflect revised risk assessment process and linkage with the new B30.
 |
| B33 Going concern risk assessment | * Moved from B31.
* Consequential amendment to risk assessment procedures section for changes to risk assessment forms.
 |
| B34 Fraud risk assessment | * New form to summarise conditions and events that may indicate a risk of material misstatement in the financial statements due to fraud and aid compliance with the revised ISA 240.
 |
| B35 Audit team discussion | * Moved from B23.
* Additional reference to APM added in guidance notes.
* Fraud risk section updated for changes to ISA 240.
* Approach section removed (now on B41 Audit team briefing).
 |
| B40 Audit plans | * Moved from B33.
 |
| B41 Audit team briefing | * New form to aid in updating the audit team on changes since the audit team discussion and to brief on the audit approach.
 |
| B50 Budget | * Moved from B61.
 |
| SSF Substantive sampling form | * Minor update to approach to reflect spectrum of inherent risk.
 |
| **Current file: Planning (freeform memo) (p/c on or after 15 Dec 2021)** |   |
| B01 Planning checklist Freeform memorandum approach | * Moved from B11.
* Guidance notes updated to reflect ISA 315 changes.
* First section renamed pre planning.
* Minor amendments to items for clarity, best practice and ISA 315 changes.
* New item added requiring completion of new fraud risk assessment which incorporates changes to ISA 240.
* New items added to risk assessment procedures and risk assessment / audit approach in relation to team meetings and team briefings given these have now been split in the methodology, and the team meeting section of this form has been removed as a result.
 |
| B05 Audit planning memorandum | * Moved from B11 and no longer shares the same reference as the planning checklist.
* Updated to reflect revised methodology with respect to updates to ISA 315 and ISA 240.
 |
| B13 New client checklist | * A copy of this form has been made available in the Planning (freeform memo) section.
 |
| B14 Opening balances and consistency of accounting policies | * New form to assist in gathering sufficient appropriate audit evidence over opening balances and consistency of accounting policies.
 |
| B21 Audit data analytics assessment | * A copy of this form has been made available in the Planning (freeform memo) section.
 |
| B24X Control form | * New form to document design and implementation of controls as part of the revised ISA 315 requirements.
 |
| B31X Assertion level risk | * New form to assess risk of material misstatement at the assertion level as part of the revised ISA 315 requirements.
 |
| B32X Key accounting estimate | * A copy of this form has been made available in the Planning (freeform memo) section.
* Update to guidance notes to reflect the revised ISA 315 requirements.
* Changes to form to reflect revised risk assessment process and linkage with the new B05.
 |
| B50 Budget | * Moved from B61.
 |
| SSF Substantive sampling form | * Minor update to approach to reflect spectrum of inherent risk.
 |
| Current file: Audit programmes (p/c on or after 15 Dec 2021) |   |
| Audit programmes D to K plus Ear-marked schemes | * Minor amendment to wording of one test, highlighting the need to ensure appropriate restatement, where relevant.
* Additional test inserted with respect to changes in accounting policies as part of best practice amendments.
* Additional test inserted with respect to the revised ISA 240.
 |
| D Audit programme - Trustees and related parties | * Changes as per above for audit programmes D to K.
* Minor amendment to one test in connection with related parties / transactions not previously identified or disclosed.
 |
| K Audit programme - Trial balance | * Changes as per above for audit programmes D to K.
* A number of additional tests added in relation to the revised requirements of ISA 240.
* Additional guidance added by way of footnotes.
 |
| Current file: Staff appraisal form |   |
| Staff appraisal form | * Moved into new format so it displays like other forms within the manual and is no longer treated as a separate attachment.
 |
| Permanent file**(p/c on or after 15 Dec 2021)** |   |
| Permanent file indices | * Updated to reflect revised file structures.
 |
| PF1-1 The entity and its environment | * Completely revised form to address the requirements of the revised ISA 315.
 |
| PF1-2 The applicable financial reporting framework | * New form to aid in understanding the applicable financial reporting framework as part of the revised ISA 315 requirements.
 |
| PF1-3 Laws and regulations | * Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF1-4 Related parties | * Minor amendments to wording for consistency with the revised ISA 315.
* Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF1-6 Using a service organisation | * Updates to wording and requirements of the form to improve clarity of requirements.
* Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF1-7 Using the work of an expert | * Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF1-8 Accounting estimates | * Minor updates throughout to reflect ISA 315 amendments.
* Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF1-10 Going concern | * Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF2-1 Systems overview | * Minor changes to notes as a result of changes to ISA 315 requirements.
* Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF2-2 Key internal controls summary | * Moved from PF2-3.
* The presentation of the form has changed and there have been other updates to better reflect the revised flow for the revised ISA 315.
 |
| PF2-3 Internal control overview | * Moved from PF2-2.
* Completely revised form to address the requirements of the revised ISA 315.
 |
| PF2-4 Using the work of and communication with internal auditors | * Minor change to objective due to changes in ISA 315 requirements.
* Additional point added in first section for completeness.
* Minor update to guidance in footnote for consequential changes resulting from ISA 315 amendments.
* Insertion of additional wording in relation to the yearly sign off.
 |
| PF3-1 New client checklist - placeholder | * New placeholder added.
 |
| Supplementary forms |   |
| All supplementary forms | * Updated so they are no longer period specific.
 |

## April 2022 - Remapping summary

The below table provides a list of forms in the planning section of the current file and the permanent file, and indicates where they have moved to, if applicable, as part of this update of the manual.

|  |  |  |
| --- | --- | --- |
| Original reference and form | Revised reference  | Comments (if applicable) |
| Planning |   |   |
| B11 Planning checklist | B01 |   |
| B11 Audit planning memorandum (freeform only) | B05 |   |
| B12 Acceptance of appointment or reappointment | B11 |   |
| B13 Compliance with the Ethical Standard | B12 |   |
| B14 Preliminary engagement quality control review | B03 | Now labelled with '(ISQC version)' with a new version '(ISQM version)' made available for adoption of the new quality management standards. |
| B20 Audit data analytics assessment | B21 |   |
| B21-1 Communication with management | B22-1 |   |
| B21-2 Agenda for communication with those charged with governance | B22-2 |   |
| B22 Preliminary analytical review | B23 |   |
| B23 Audit team discussion | B35 |   |
| B30A-E Key accounting estimate summary | B32A-E | Renamed 'Key accounting estimate'.  |
| B31 Going concern risk assessment | B33 |   |
| B32 Risk assessment | B30 |   |
| B33 Audit plans | B40 |   |
| B41 Materiality | B25 |   |
| B61 Budget | B50 |   |
| CSF Test of controls sampling form | No Change |   |
| SSF Substantive sampling form | No Change |   |
|   |   |   |
| Permanent file |   |   |
| PF1- New client checklist | B13 / PF3-1 |   |
| PF1-1 The entity and its environment | No Change |   |
| PF1-3 Laws and regulations | No Change |   |
| PF1-4 Related parties | No Change |   |
| PF1-6 Using a service organisation | No Change |   |
| PF1-7 Using the work of an expert | No Change |   |
| PF1-8 Accounting estimates | No Change |   |
| PF1-10 Going concern | No Change |   |
| PF2-1 Systems overview | No Change |   |
| PF2-2 Internal control overview | PF2-3 |   |
| PF2-3 Key internal controls summary | PF2-2 |   |
| PF2-4 Using the work of and communication with internal auditors | No Change |   |
| PF3-1 Risk analysis | Removed |   |
| PF3-2 Fraud risk analysis | B34 | Now included as part of B34.  |