

Update - August 2023

What's changed

We are pleased to issue updates to your Mercia Audit Manual (dated 08/23).

The principal technical changes in this update include:

- Changes in relation to ISA (UK) 600 *Special considerations - Audits of group financial statements (Including the work of component auditors)*;
- The introduction of a new (optional) statistical sampling approach; and
- The introduction of a set of guidance notes specifically tailored for companies.

In addition a number of other minor improvements and amendments have been made to the manual.

See below for a full list of changes.

ISA (UK) 600 *Special considerations - Audits of group financial statements (Including the work of component auditors)*

In September 2022, the FRC issued a revised ISA (UK) 600. The proposed revisions enhance the risk-based approach to undertaking a group audit and reinforce the need for robust communication and interactions between the group engagement team, group engagement partner and component auditors.

The revised ISA is effective for periods commencing on or after 15 December 2023, although the changes have been early adopted given certain requirements in relation to component auditors are already effectively in place due to the requirements of ISQM 1, and many of the other changes are considered good practice, with some firms already doing a lot of what the new requirements necessitate. An option has, however, been retained on the B30 Inherent and control risk assessment form for use where firms have decided not to early adopt the revisions.

New (optional) statistical sampling approach

A new (optional) statistical sampling approach has been added to sit alongside the extant judgemental sampling approach. For many audits the extant judgemental approach, particularly where populations are smaller, will remain appropriate, however it is not suitable for use on the audits of PIEs or other audits where populations are very large. As such a new statistical sampling approach which does not include a sample size cap has been added to the methodology for use on audits where the judgemental approach is not considered appropriate.

Guidance notes

A new set of guidance notes has been included to reflect the specific requirements of companies. These guidance notes supplement the contents of the Audit Procedures Manual (UK) which support the underlying methodology.

Exciting new feature

We have also developed tailoring and customisation tools to help you filter out the irrelevant parts of the Accounts disclosure checklists through a series of questions. These are available in the 'Customise' screen within the menu on the right.

By selecting 'Yes' to the question 'Would you like to tailor your accounts disclosure checklist through a series of questions?', you will then be asked a series of questions. Answering these subsequent questions will filter down the disclosure checklist so that only the checklists / sections you require will be shown / available to download / included within the checklist downloaded.

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

August 2023

August 2023 - Detailed list of changes

The below table provides a detailed list of changes within the manual. In addition to the items listed below, minor changes have been made for formatting, grammar, and other editorial amendments.

Updated area	Main reason for change
Guidance	
Contents	<ul style="list-style-type: none">• Updated for the Group audit instruction letter and Group audit questionnaire being moved into the Example letters section.
Guidance notes	<ul style="list-style-type: none">• A new set of guidance notes including company specific requirements has been added.• Appendix 3a to the guidance notes includes guidance on the new statistical sampling approach.
Getting started for new manual users	<ul style="list-style-type: none">• The Accessing the manual section has been removed - guidance on accessing manuals is available on the website.
What's changed	<ul style="list-style-type: none">• A copy of this What's changed notice has been added to the manual.

Example letters

- 3.2 Schedule of professional services - Audit (group)
 - Minor update to more clearly reference the group and parent company.
 - Additional paragraph added in Section 2 to highlight the group auditor is responsible for the direction, supervision and review of the group audit, and to secure agreement to communicate with component auditors without further consent being required.
- 17 Group audit instruction letter
 - Moved from Example reports section.
 - Significant update to reflect revisions to ISA 600 and best practice updates.
- 18 Group audit questionnaire
 - Moved from Example reports section.
 - Minor updates to reflect revisions to ISA 600 and best practice updates.

Example reports

- 2 Unqualified IAS (IFRS) audit report
 - References to transitional period wording removed as no longer applicable.
- 5 Unqualified group audit report
 - Minor update to wording of last bullet point in the Auditor responsibilities for the audit of the financial statements section where the full responsibilities are included rather than a link to the FRC website.
- 6 Unqualified IAS (IFRS) group audit report
 - References to transitional period wording removed as no longer applicable.
 - Minor update to wording of last bullet point in the Auditor responsibilities for the audit of the financial statements section where the full responsibilities are included rather than a link to the FRC website.
- Group audit instruction letter
 - Moved to Example letters section.
- Group audit questionnaire
 - Moved to Example letters section.

Example accounts

- 1 Small Full (FRS 102 1A) accounts
 - Updated to state the accounts are based on standards and amendments in issue at 1 April 2023 (no technical changes to the content of the accounts).
- 1a Small Abridged (FRS 102 1A) accounts
 - Updated to state the accounts are based on standards and amendments in issue at 1 April 2023 (no technical changes to the content of the accounts).
- 2 Not Small (FRS 102) accounts
 - Updated to state the accounts are based on standards and amendments in issue at 1 April 2023 (no technical changes to the content of the accounts).
- 3 UK-adopted IAS accounts
 - Updated to state that the accounts reflects standards and amendments in issue as at 1 April 2023 and are applicable for periods commencing on or after 1 January 2021 but before 1 January 2024.
 - Updated to refer to UK-adopted international accounting standards.
 - References to p/c before 1 January 2021 removed.
 - Updated for Disclosure of Accounting Policies: Amendments to IAS 1 Presentation of Financial Statements and consequential amendments.

Accounts disclosure checklists

- A32 SUMMARY Disclosure checklist summary
 - Updated to refer to UK-adopted international accounting standards.
- A32 SMALL FRS 102 1A
 - Updated to state that the checklist reflects standards and amendments in issue as at 1 April 2023 (no technical changes to the content of the checklist).
- A32 NOT SMALL FRS 102
 - Updated to state that the checklist reflects standards and amendments in issue as at 1 April 2023 (no technical changes to the content of the checklist).
- A32 IFRS UK-adopted international accounting standards
 - Updated to state that the checklist reflects standards and amendments in issue as at 1 April 2023 and is applicable for periods commencing on or after 1 January 2021 but before 1 January 2024.
 - Updated to refer to UK-adopted international accounting standards.
 - Updated for Disclosure of Accounting Policies: Amendments to IAS 1 Presentation of Financial Statements and consequential amendments.
- A32 FRS 101
 - Updated to state that the checklist reflects standards and amendments in issue as at 1 April 2023 and is applicable for periods commencing on or after 1 January 2021 but before 1 January 2024.
 - Updated to refer to UK-adopted international accounting standards.
 - Updated for Disclosure of Accounting Policies: Amendments to IAS 1 Presentation of Financial Statements and consequential amendments.

Current file documents

- A29 Reporting on irregularities, including fraud in the auditor's report (individual and group)
 - An additional column has been added to enable comments to be cross referenced back to where the underlying work has been performed.

A31 Group audit completion checklist (group)	<ul style="list-style-type: none"> • Four new bullet points added to Evidence section to reflect ISA 600 revisions. • Minor amendments to wording of component auditor questions to reflect revisions to ISA 600. • References to ISA 600 updated.
A41 Group subsequent events update and evaluation (group)	<ul style="list-style-type: none"> • Minor change to wording of component auditor question to reflect ISA 600 revisions.
A52-1 Communication with group management checklist (group)	<ul style="list-style-type: none"> • Additional point added to reflect ISA 600 revisions.
A53 Component auditors (group)	<ul style="list-style-type: none"> • Major update to reflect ISA 600 revisions.
B01 Group planning checklist (group)	<ul style="list-style-type: none"> • Additional point added in pre planning to reflect ISA 600 revisions.
B02 Group audit strategy (group)	<ul style="list-style-type: none"> • Minor update to wording of guidance to characteristics of the engagement and nature, timing and extent of resources sections to reflect ISA 600 revisions.
B05 Freeform planning memo (freeform)	<ul style="list-style-type: none"> • An additional row for Profit before tax has been added into the basis for determining materiality section.
B25 Materiality (individual)	<ul style="list-style-type: none"> • An additional row for Profit before tax has been added into the basis for determining materiality section.
B25 Materiality (group)	<ul style="list-style-type: none"> • An additional row for Profit before tax has been added into the basis for determining materiality section. • Update to component materiality section to reflect ISA 600 revisions.
B26 Component auditors (group)	<ul style="list-style-type: none"> • Major update to reflect ISA 600 revisions.
B30 Group inherent and control risk assessment (group)	<ul style="list-style-type: none"> • Minor update to Group audit approach section to reflect ISA 600 revisions.
B35 Group audit team discussion (group)	<ul style="list-style-type: none"> • Update to component auditor point under fraud risk to reflect ISA 600 revisions.
B40 Audit plans (individual and group)	<ul style="list-style-type: none"> • Guidance in sampling section updated to refer to sampling plan(s) / sampling form(s) as appropriate.
B40/P2 Group audit plan - Intra group balances, transactions and consolidations	<ul style="list-style-type: none"> • Reference to financially significant, risk significant and not significant under components section removed due to ISA 600 revisions.
CSF Controls sampling form (individual, freeform and group)	<ul style="list-style-type: none"> • Updated to new format (no substantive technical changes).
SSF Substantive sampling form - Judgemental (individual, freeform and group)	<ul style="list-style-type: none"> • Updated to new format including more space to justify sample sizes.
SSF Substantive sampling form - Statistical (individual, freeform and group)	<ul style="list-style-type: none"> • New form for use with the new statistical sampling approach.
P Audit programme - Intra group balances, transactions and consolidations	<ul style="list-style-type: none"> • A - Update to wording of undertaking work on components test to reflect revisions to ISA 600. • F - Updates to two tests under consolidation section to reflect revisions to ISA 600.
Proforma working papers	<ul style="list-style-type: none"> • Updated to reflect the update to the SSF Substantive sampling form - Judgemental.
Permanent file documents	
PF1-5 Groups	<ul style="list-style-type: none"> • Additional point added to component entity risks section to reflect ISA 600 revisions.
PF1-7 Using the work of an expert	<ul style="list-style-type: none"> • Auditor's expert section expanded.
PF1-9 Component auditors	<ul style="list-style-type: none"> • Understanding the component auditor section expanded.
Supplementary forms	
File review checklist (p/c on or after 15 Dec 21)	<ul style="list-style-type: none"> • Groups section updated to reflect ISA 600 revisions.

