HAT Technical

MEMO 13/20

To: All firms
From: Simon Kettlewell
Date: 30 September 2020

UPDATE TO THE HAT CORPORATE AUDIT MANUAL:
AMENDMENTS FOR PERIODS COMMENCING ON/AFTER 15 DECEMBER 2019

The HAT Corporate Audit Manual has been updated as part of our annual update cycle.

The key driver of the update is the revision to a number of Auditing Standards, with the following being the areas of most significant change:

- ISA (UK) 540 *Auditing Accounting Estimates and Related Disclosures*
- ISA (UK) 570 *Going Concern*
- ISA (UK) 700 *Forming an Opinion and Reporting on Financial Statements*

The changes to the Auditing Standards are effective for **accounting periods commencing on or after 15 December 2019.**

As these changes are most likely to affect clients with a 31 December 2020 year end and onwards (albeit care will be needed with short periods), we have updated the Corporate Audit Manual and re-named this to the **Corporate Audit Manual (January 2020).**

For periods commencing prior to 15 December 2019, the HAT Corporate Audit Manual (January 2019) should still be used.

The major changes to the Audit Manual can be broken down as follows:

Risk assessment at the planning stage

The risk assessment part of planning has seen some fundamental changes:

- The checklist-based approach to assessing inherent risk and control risk has been removed, meaning that such risk assessments must now be completed using a narrative-based, thought-led approach. This step has been taken as it has proven too difficult to keep the checklist version compliant with the requirements of the new ISA's;
- The inherent business risk assessment and control environment assessment have been split up – Ac10 now deals solely with inherent risk, whilst a new Ac11 deals with the assessment of the control environment, management override and the design and

implementation of controls (the section of Ac11 for which needs to be completed irrespective of whether reliance is to be placed on those controls);

- Enhanced guidance to support making the narrative-based risk assessment is available at Ac10;
- New risk assessment forms have been introduced relating to Going Concern and Accounting Estimates as a result of the revisions to ISA (UK) 570 *Going Concern* and ISA (UK) 540 *Auditing Accounting Estimates and Related Disclosures*. This has resulted in the old accounting estimates form (PAF A1-11/ Ac8/2) being removed;
- The changes referred to above have resulted in some re-referencing of the risk assessment documentation, as follows:

Title of working paper	New reference	Old reference
Overall Inherent Risk Assessment (NARRATIVE ONLY)	Ac10 and Ac10/1 (Ac10-1 in CaseWare)	Ac10/1 and Ac10/2
Going concern risk assessment (NEW)	Ac10-2	N/A
Control environment assessment	Ac11 (Ac11-1 in CaseWare)	Ac10/3
Area specific risk assessment	Ac12-1	Ac11
Accounting Estimates risk assessment (NEW)	Ac12-2 (AeX-1 in CaseWare)	N/A
Area specific control risk assessment (rarely used)	Ac12-3	Ac12

Other planning changes

- Changes to Ac2 to deal with the new Ethical Standard which applies for periods commencing on/after 15 March 2020, including:
    - a new question asking whether staff have been seconded to the audited entity; and
    - a reminder that where the R.I has acted for more than 10 years, a safeguard must now be implemented.

- A new client information request pack and a schedule to track the responses has been introduced to the planning stage with a view to obtaining information from the client regarding the following matters;
    - Accounting Estimates (in accordance with ISA (UK) 540)
    - Going Concern (in accordance with ISA (UK) 570)
    - Related Parties (in accordance with ISA (UK) 550)
    - Fraud risk factors (in accordance with ISA (UK) 240)
    - Laws and regulation (in accordance with ISA (UK) 250) and
    - IT controls (in accordance with ISA (UK) 315)

  NB: Issuing the new information request document is not a mandatory requirement. Whilst not driven entirely by new requirements, both ISA (UK) 540 and ISA (UK) 250 place an emphasis on the auditor obtaining a detailed understanding of accounting estimates and laws and regulations. It is also often noted that a complete list of all related parties, as required by ISA (UK) 550, is not on an audit file. The new information request pack provides a mechanism for obtaining such information;

- The Assignment Plan at Ac14 has been updated to include considerations re: accounting estimates, laws and regulation, fraud and going concern.

Audit Programmes

In respect of the audit programmes:

- A supplementary accounting estimates programme has been introduced, which must be completed for each accounting estimate in excess of performance materiality where the level of estimation uncertainty is anything but low;
- Almost every other audit programme has been amended to introduce a new test requiring the estimates programme to be completed where appropriate:

  For each accounting estimate in excess of performance materiality and where the level of estimation uncertainty is anything but low, complete the "Accounting Estimates Supplementary Programme".

- The Laws and regulations considerations on the N2 audit programme have been bolstered, with a particular focus on the new reporting requirement under ISA (UK) 700.

Finalisation

- The Audit Control Record (Aa1) has new questions dealing both with accounting estimates and the extent to which the audit was considered capable of detecting irregularities, including fraud;

- The Going Concern checklist (Aa3b) has had an overhaul to cover the additional requirements of the revised version of ISA (UK) 570, in order to support the new positive statement on going concern in the audit report;
- The ISA Compliance Critical Issues memo (Aa7) includes a new overall conclusion on accounting estimates; and
- The Audit report templates have been updated per the FRC bulletin "Illustrative Statutory Audit Reports on United Kingdom private sector financial statements".

All amended documents are annotated as "09/20" in the footer.

Users should download the Manual **IN FULL** from the Members' Area of our website.

The Non-Audit Assignments Manual, LLP Manual and Groups Manual have all been updated and will be released today (by way of TM 14/20, TM 15/20 and TM 16/20 respectively).

Where necessary we will also update our specialist Manuals over the next few months.

For firms using CaseWare, these changes will be reflected in the next update of the template which we expect CaseWare to issue in due course.

We are always pleased to receive feedback on our manuals. If you have any comments on this Manual then please email simon@hatgroup.co.uk