

**To:** All firms  
**From:** Roger Morris  
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## QUALITY CONTROL

The enhancements to the HAT Audit Manual, following the implementation of ISA (UK) 540 / 570 / 700 has led to a number of required amendments to HAT’s file review template.

HAT has taken this opportunity to also more closely align quality control documentation with the approach taken by audit regulators in the UK. These include:

**FILE REVIEW CONCLUSIONS:**

To provide a clearer conclusion for all users of file reviews, these will now provide details of deficiencies within the audit working papers and whether these are **significant** (i.e. deficiencies which result in an incorrect audit opinion or major deficiencies in audit evidence such that the audit opinion is not appropriately supported). This new conclusion will be coupled with a four tier, traffic light style grading system, based on the existing percentages as follows:

| Existing conclusion  | New conclusion                      |
|--|-------------------------------------|
| File supports the opinion given                                    | A good working papers file          |
| File supports the opinion, except (80%+)                           | Deficiencies identified             |
| File supports the opinion, except (65% to 79%)                     | Deficiencies identified             |
| File does not support the opinion given<br>Audit opinion incorrect | Significant deficiencies identified |

This will be reflected in a new Section 7 of the HAT file review template as follows:

| Conclusion // Percentage   | 80% or More                                       | Between 65% and 79%       | Less than 65% |
|----------------------------|---|---------------------------|---------------|
| A good working papers file | No improvement required                           | N/A                       | N/A           |
| Deficiencies identified    | Minor improvement required                        | Some improvement required | N/A           |
| Deficiencies identified    | Major improvement required (technical or quality) |                           |               |

The upper / lower thresholds suggested above (80% / 65%) may be determined individually by every audit firm, with the lower threshold already being well established within the Audit

Procedures module of the HAT Compliance Manual and is also reflected on the Regulation of Auditor's Checklist in the HAT Audit Manual.

Where a firm wishes to set an alternative (for example, 85%) as the upper threshold, this should be notified to a member of the HAT team during Q2 / 21, to enable this to be applied for all cold file reviews performed by the HAT team.

**ROOT CAUSE ANALYSIS:**

Within the annual summary of file reviews (as required by ISQC (UK) 1), collation of recurring issues is now set out in a landscape, tabular format to enable the root causes of the recurrence of these items to be identified and documented, along with any corrective action to be taken by individual firms. HAT's view is that the root cause analysis is best performed within the firm as the reason(s) why the identified deficiencies arose can more easily be clearly identified, although where possible, those performing the root cause analysis should be independent of the audit team.

**ANNUAL COMPLIANCE REVIEW:**

To more clearly document how compliance with the requirements of ISQC (UK) 1 is reviewed on an annual basis, the Annual Compliance Review has been split between Practice Assurance and Audit requirements.

**HAT COMPLIANCE MANUAL ~ ANNUAL COMPLIANCE REVIEW MODULE (03/21 UPDATE):**

All of the above documents, plus those for which there are consequential amendments, are in the Annual Compliance Review module of the HAT Compliance Manual. An updated version dated 03/21 is being released today.

The updated documents will be utilised by the HAT team for all file / annual compliance reviews performed on or after 1 April 2021, with file review summaries prepared where HAT performs the annual compliance review for a firm reflecting the principles noted above.

Where these documents are adopted for use within an audit firm, it is recommended that they are utilised as soon as is practicable, as they reflect enhancements to existing documentation and a closer alignment with current expectations of audit regulators.

We are always pleased to receive feedback on our Manuals - if you have any comments, please contact Roger Morris ([roger@hatgroup.co.uk](mailto:roger@hatgroup.co.uk)).

Stay safe.