

# Update - September 2023

## What's changed

We are pleased to issue updates to your Mercia Charities Audit Manual (dated 09/23).

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;
- The restructuring of the guidance notes; and
- The removal of independent examination content into a separate manual which is included in the new charities package.

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 ISQM1, 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.

As part of these changes, the manual now also includes documentation in relation to the use of component auditors.

### **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 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**

The guidance notes have been restructured to make them more user-friendly and to ensure a consistent approach to guidance notes across Mercia's suite of products.

### **Independent examination**

Documentation in relation to the independent examination of charities has been enhanced and moved into a separate manual, the Charities Independent Examination Manual. This manual has been renamed to the Charities Audit Manual, reflecting its audit focus. Subscribers to the former Charities Manual will now have access to both the Charities Audit Manual and Charities Independent Examination manual as parts of the new Charities Package.

### **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

September 2023

### **September 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"><li>• Updated for addition of the Group audit instruction letter and Group audit questionnaire to the Example letters section.</li><li>• Updated to reflect the removal of independent examination content.</li></ul>
Guidance notes	<ul style="list-style-type: none"><li>• The guidance notes have been restructured to make them more user friendly and to ensure a more consistent approach across the suite.</li><li>• Appendix 6a to the guidance notes includes guidance on the new statistical sampling approach.</li></ul>
Getting started for new manual users	<ul style="list-style-type: none"><li>• The Accessing the manual section has been removed - guidance on accessing manuals is available on the website.</li></ul>
What's changed	<ul style="list-style-type: none"><li>• A copy of this What's changed notice has been added to the manual.</li></ul>
Example letters	

Schedule of professional services - Audit (all group letters)

- Where appropriate, a minor update to more clearly reference the group and parent.
- 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.
- Added to the manual.
- Added to the manual.

Group audit instruction letter

Group audit questionnaire

## Example reports

All audit reports

- Minor updates and amendments to reflect latest guidance.

All group audit reports

- 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.
- New reports added for charitable companies audited under charity law only.

Group audit reports (England & Wales and Northern Ireland)

## Example accounts

1 Not Small SORP FRS 102 Financial Statements

- 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).

## Accounts disclosure checklists

A32 SUMMARY Charities accounts disclosure checklist summary

- Removed as not applicable for audited charities.

A32 SORP checklist

- 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 Receipts and payments basis

- Removed as not applicable for audited charities.

## Current file documents

Current file indices

- Updated to reflect addition of A53 and B26.

A22 Overall review of the group financial statements (group)

- Point 8 updated to include reference to component auditors.

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.
- Four new bullet points added to Evidence section to reflect ISA 600 revisions.
- Component auditors section added (shaded section).
- References to ISA 600 updated.

A41 Group subsequent events update and evaluation (group)

- Additional shaded point added with respect to component auditors.

A52-1 Communication with group management checklist (group)

- Additional shaded points added with respect to component auditors.

A52-2 Communication with those charged with governance of the group (group)

- Additional shaded point added with respect to component auditors.

A53 Component auditors (group)

- New form added to manual.

B01 Group planning checklist (group)

- Additional point added in pre planning to reflect ISA 600 revisions.

- Additional shaded points added with respect to component auditors.

B02 Group audit strategy (group)

- 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)

- An additional row for Income has been added into the basis for determining materiality section.

B25 Materiality (individual)

- An additional row for Income has been added into the basis for determining materiality section.

B25 Materiality (group)	<ul style="list-style-type: none"> <li>An additional row for Income has been added into the basis for determining materiality section.</li> <li>Update to component materiality section to reflect ISA 600 revisions.</li> </ul>
B26 Component auditors (group)	<ul style="list-style-type: none"> <li>New form added to manual.</li> </ul>
B30 Group inherent and control risk assessment (group)	<ul style="list-style-type: none"> <li>Minor update to Group audit approach section to reflect ISA 600 revisions.</li> </ul>
B35 Group audit team discussion (group)	<ul style="list-style-type: none"> <li>Additional shaded point added with respect to component auditors.</li> </ul>
B40 Audit plans (individual and group)	<ul style="list-style-type: none"> <li>Guidance in sampling section updated to refer to sampling plan(s) / sampling form(s) as appropriate.</li> </ul>
B40/P2 Group audit plan - Intra group balances, transactions and consolidations	<ul style="list-style-type: none"> <li>Reference to financially significant, risk significant and not significant under components section removed due to ISA 600 revisions.</li> </ul>
CSF Controls sampling form (individual, freeform and group)	<ul style="list-style-type: none"> <li>Updated to new format (no substantive technical changes).</li> </ul>
SSF Substantive sampling form - Judgemental (individual, freeform and group)	<ul style="list-style-type: none"> <li>Updated to new format including more space to justify sample sizes.</li> </ul>
SSF Substantive sampling form - Statistical (individual, freeform and group)	<ul style="list-style-type: none"> <li>New form for use with the new statistical sampling approach.</li> </ul>
P Audit programme - Intra group balances, transactions and consolidations	<ul style="list-style-type: none"> <li>A- Update to wording of undertaking work on components test to reflect revisions to ISA 600.</li> <li>F - Updates to two tests under consolidation section to reflect revisions to ISA 600.</li> </ul>
Independent examination	<ul style="list-style-type: none"> <li>Section removed from manual (an enhanced suite of documentation is available in the Charities Independent Examination Manual).</li> </ul>
<b>Permanent file documents</b>	
Permanent file indices	<ul style="list-style-type: none"> <li>Updated to reflect addition of PF1-9.</li> </ul>
PF1-5 Groups	<ul style="list-style-type: none"> <li>Additional point added to component entity risks section to reflect ISA 600 revisions.</li> </ul>
PF1-7 Using the work of an expert	<ul style="list-style-type: none"> <li>Auditor's expert section expanded.</li> </ul>
PF1-9 Component auditors	<ul style="list-style-type: none"> <li>New form added to manual.</li> </ul>
<b>Supplementary forms</b>	
File review checklist (p/c on or after 15 Dec 21)	<ul style="list-style-type: none"> <li>Groups section updated to reflect ISA 600 revisions.</li> </ul>

