



# Be Clear on Clarified ISAs

## What to do and when to do it!

### What is changing?

Back in 2005, the introduction of ISAs had a significant impact on auditors and now, only a few years on, we have another major change of audit rules. All the existing ISAs are to be replaced by new Clarified ISAs.

Memories of the last change remain fresh in many firms' minds and those who experienced issues with implementation last time will benefit from preparing in advance this time round.

You will find details of the key changes introduced by the new ISAs summarised towards the end of this article.

### Clarified ISAs - already issued

The final versions of the Clarified standards were issued in October 2009. The APB had provided plenty of advance notice that they were on their way, with the draft standards having been available since March 2009.

Those of you who primarily audit owner-managed businesses will be pleased to hear that the guidance for audit documentation for small audits is also being updated as part of the new regime. A draft revised version of PN 26, which provides guidance and illustrated examples, is already available and the final version is expected shortly.

### Implementation timetable – what's yours?

The new standards replace the existing ISAs with effect for audits for periods commencing on or after 15 December 2009.

The effective deadline may not be until audits of December 2010 year ends but now is the time to start to consider how you will ensure your firm will be ready. After all, as we often quote on audit courses, 'failing to plan is like planning to fail!'

### Mercia audit manual update – work is underway

As you would expect, our audit technical team is already hard at work and the mapping of ISAs to Clarified ISAs has already been undertaken, with the first draft of revised documentation in preparation.

The next key step is when our audit manual user group committee meet in December 2009 to agree the content and format of the revised procedures.

Our manual is used by over 1,000 firms and our audit manual user group committee includes representatives from some of them. Their experience of using the manual on real audits is invaluable when we are deciding on new or revised documentation to introduce. Whilst our new procedures must be compliant with the new rules we always endeavour to make them practical and efficient to follow. When drafting the changes, our editorial team also liaise with our file review team to ensure that they address any areas where compliance issues are regularly identified.

If you are a user of the Mercia audit manual, you will know that the manual has always been regularly updated and even when we have had to completely rewrite it we have made no extra charge to users. We're sure you will be pleased to learn that the same is true for this overhaul. All of the revised Clarified ISAs guidance will be provided as part of the normal annual update fee.

### Release of new documentation

**Summer 2010:** The revised manual will be made available from early summer 2010, well in advance of the deadline and essential for use on any interim audit work or audits of financial statements for short accounting periods. If you are eager to adopt the Clarified ISAs, you will be able to request your copy in advance and then



you will be able to download all the revised documentation at this stage.

**Autumn 2010:** Alternatively, for those of you not as eager, we will be notifying all manual users in the autumn of the need to download the new documentation.

## Paperless audit users

If you use our methodology in a paperless system, provided by Caseware or CCH, these systems will be updated to follow the revised guidance during the summer. The advance timing of our updating will enable these systems to be updated and available for use in plenty of time before the new documentation is required.

The change from SASs to ISAs back in 2005 provided the catalyst for many firms to go paperless with their audit work. If you are yet to make this change and are considering this for Clarified ISAs, once again it would be beneficial to start planning now.

## Training

We are planning Clarified ISAs courses specific to the audit manual so, whatever your firm's implementation timescales or your geographical location, you will be able to find timely, appropriate training on the revised documentation. These courses will be available as face to face training at selected venues around the country as well as on CD and via webinar.

The level of impact of the changes (summarised below) will vary depending on the nature of your individual audit client. Our courses will help you identify the changes that you need to make to your own audit procedures and which clients will be most affected.

Those of you who are also members of Mercia training groups will find that we have included courses covering Clarified ISAs in your 2010 programme, such as:

- Audit, Accountancy and Assurance Update;
- Laws and Regulations for the Practising Accountant;
- Maximising Profit, Minimising Risk in Smaller Audits;
- Practical Auditing Problems and their Solutions;
- Charities: Current issues.

## What changes should you expect?

All of the ISAs have been rewritten as part of the Clarity project. Each standard is now structured in a new way, with clear objectives, definitions and requirements, together with application and other explanatory material. The structure of the new standards make it easier to understand what is required and what is purely guidance. In addition, ISQC 1 has also been rewritten and the revised guidance on quality control procedures will also become effective at the same time as the Clarified ISAs.

Whilst all the ISAs have been rewritten, the main areas of audit work that are affected by the changes to Clarified ISAs are:

### • Groups - ISA 600

The revised ISA is far more wide-ranging than the existing standard and sets out new requirements in respect of the relationship between the group engagement team and the component auditors. It is therefore expected that this will have the most impact on group audits where you are not the auditor for the whole group.

### • Related Parties - ISA 550

The revised ISA includes a number of specific new requirements to ensure that auditors place a greater emphasis on a risk-based approach in this area and improve the identification of related party relationships and transactions which have not already been disclosed by management.

### • Estimates (including fair value) - ISA 540

The ISA introduces requirements for greater rigor and scepticism in to the audit of accounting estimates, including the auditor's consideration of indicators of possible management bias.

The ISA now also includes new requirements in respect of:

- specific matters for the auditor to gain an understanding of in order to assess risk;
- evaluation of estimation uncertainty and determining any significant risks; and
- requirement to perform substantive procedures to respond to significant risks.

### • Control deficiencies - ISA 265

This is a new ISA which is designed to address the way in which auditors report control deficiencies to those charged with governance. The main objective is to increase the quality of the communication to management and also to focus on the definition of a significant 'deficiency in internal control' and/or a 'missing' control which requires formal reporting.

### • ISA 450 - Evaluation of misstatements

This is another new standard and is derived from the revisions to ISA 320 on audit materiality. Among other things, it requires accumulating of misstatements, reassessment of materiality and specific documentation.

## Plan now to make sure you are ready

We will ensure that those of you who use our audit system have all the documentation you need. Those of you who use documentation from other providers may want to enquire on their plans for release. The availability of the documentation is vital but so is the need to train your team. We will communicate regularly with our contacts at your firm, providing them with information about the courses and manuals. If you are not sure who your contacts are and would like to check or be added to our database for these communications please email [karina.mikolajczyk@merciam-group.co.uk](mailto:karina.mikolajczyk@merciam-group.co.uk)

If you would like to arrange an in-house course we recommend you get a date in the diary now as demand is likely to be high as the implementation date draws closer.

## Start reading now

Alternatively, you may even want to start reading now! The revised ISAs are all freely available as PDF documents from [www.frc.org.uk/apb/press/pub2131.html](http://www.frc.org.uk/apb/press/pub2131.html) and a brief summary of the key changes was recently provided by the APB in the APB Staff Paper October 2009, also available at [www.frc.org.uk/apb/publications/pub2129.html](http://www.frc.org.uk/apb/publications/pub2129.html)

## And finally.....

The truth about the original implementation of ISAs in place of SASs is that there were many more similarities than there were differences. Only time will tell if this holds true for the introduction of the Clarified ISAs!

#### Disclaimer - for information of users

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