

# **Audit Qualification Experience Requirement (AQEF) guidance notes**

# AQEF guidance notes

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## Unit AQ1 – Prepare for and plan the audit process

This unit is about planning and controlling the engagement process. It involves initial investigation as well as the planning and monitoring of the audit programmes in line with ethical and legal requirements. There is also a need to understand clients' businesses.

Element reference	Demonstrated behaviour and examples
<b>Element AU1</b> <b>Identify ethical, legal and engagement requirements on an audit</b>	<ul style="list-style-type: none"><li>• Consider and identify any ethical issues or threats to independence and objectivity upon acceptance of an audit and highlight these to team members</li><li>• Prepare an engagement letter that details scope and services to be provided</li><li>• Discuss the scope of the audit with the client and agree timetable</li><li>• Apply applicable auditing standards (eg ISAs) and relevant laws and regulations</li><li>• Ensure all staff involved in the engagement are aware of relevant standards and frameworks for the assignment</li><li>• Understand the business to be audited and analyse relevant industry, regulatory, and other external factors including market, competition, product technology and environmental requirements</li></ul>
<b>Element AU2</b> <b>Determine the level of audit risk</b>	<ul style="list-style-type: none"><li>• Obtain, evaluate and analyse all relevant external and internal information about the business and its environment including the market, competition, product technology and environmental requirements and their impact on the audit strategy</li><li>• Identify and assess the risks of material misstatement</li><li>• Evaluate the risks and document the audit approach</li><li>• Design analytical procedures, substantive tests and tests of internal controls</li><li>• Plan the combination of audit procedures and design audit programmes</li><li>• Carry out initial analytical procedures</li></ul>
<b>Element AU3</b> <b>Evaluate the risk within an organisation's internal control structure</b>	<ul style="list-style-type: none"><li>• Test and evaluate the adequacy of the accounting system as the basis for the preparation of financial statements including evaluating the IT environment</li><li>• Evaluate corporate governance structures and risk assessment processes</li><li>• Design and carry out tests of internal controls</li><li>• Design appropriate substantive procedures depending on the assessment of the internal controls environment</li><li>• Investigate areas of concern</li><li>• Make any necessary changes to the audit approach and the audit programme</li></ul>

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# AQEF guidance notes

## Unit AQ2 – Collect and evaluate evidence for an audit

This unit is about the process of carrying out an audit from collecting evidence through to reviewing performance. You should ensure that judgements about the truth and fairness of financial statements are based on sufficient valid evidence. An up-to-date knowledge of the auditing regulatory framework and auditing and accounting standards is essential. You are expected to manage staff resources and liaise effectively with the client over issues and areas of concern. A high level of communication skills is also required.

Element reference	Demonstrated behaviour and examples
<b>Element AU4</b> <b>Coordinate the delivery of audit evidence</b>	<ul style="list-style-type: none"><li>• Plan and manage resources such as people and time to enable the audit to be completed in a timely and cost effective basis</li><li>• Set time and cost budgets and review these regularly</li><li>• Complete and monitor audit work against audit programmes to ensure that the audit objectives are met</li><li>• Considering if changes to the audit programme are required to gain sufficient evidence</li><li>• Resolve any problems by communicating and discussing issues with clients and other senior colleagues where necessary</li><li>• Reviewing audit work produced and ensuring that it adequately supports the audit objective</li><li>• Evaluate whether the engagement team collectively has the appropriate competence and objectivity to perform the work required</li></ul>
<b>Element AU5</b> <b>Evaluate evidence collected for an audit</b>	<ul style="list-style-type: none"><li>• Collect and accurately record audit evidence</li><li>• Carry out audit tests and record and evaluate the results</li><li>• Consider the evidence from analytical procedures, substantive tests and tests of internal control and whether the evidence obtained meets the audit objectives</li><li>• Investigate inconsistencies or areas of concern arising from the audit work and consider whether any additional procedures are required</li><li>• Evaluate accounting judgements and estimates made by management and corroborate evidence based on management representations with evidence from another source</li><li>• Ensure the audit papers are complete and that all significant matters relating to the audit</li></ul>
<b>Element AU6</b> <b>Make judgements about the truth and fairness of an organisation's financial statements</b>	<ul style="list-style-type: none"><li>• Review the financial statements to ensure compliance with applicable financial reporting frameworks and regulatory requirements</li><li>• Evaluate the recognition, measurement, presentation and disclosure of transactions and events within the financial statements</li><li>• Complete an analytical review of the financial statements at the final review stage</li><li>• Summarise and evaluate errors and misstatements identified during the audit</li><li>• Evaluate the fair presentation of financial statements relative to the nature of the business, the operating environment and the entity's ability to continue as a going concern</li><li>• Form and document an opinion on the truth and fairness of the financial statements</li></ul>

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# AQEF guidance notes

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## Unit AQ3 – Review and report on the findings of an audit

This unit is about the final stage of the audit process, in particular the functions of informing clients of the outcomes of the audit and preparing the formal audit report. An up-to-date knowledge of the auditing regulatory framework and auditing and accounting standards is essential.

Element reference	Demonstrated behaviour and examples
<b>Element AU7</b> <b>Review the performance of an audit</b>	<ul style="list-style-type: none"><li>• Ensure that all work undertaken by staff is complete and accurate</li><li>• Review audit work prepared by other staff and provide them with constructive feedback about their performance</li><li>• Ensure that auditing standards and current legislation are adhered to</li><li>• Complete a statutory disclosure checklist</li><li>• Ensure that sufficient evidence has been collected and that there are no outstanding queries</li></ul>
<b>Element AU8</b> <b>Advise of the findings and implications of an audit</b>	<ul style="list-style-type: none"><li>• Prepare a management letter and discuss this with the client</li><li>• Prepare and retain records of clients' responses</li><li>• Record instances where further information is provided on matters where there was insufficient evidence</li><li>• Inform clients of the audit results and opinion and discuss matters of concern with them</li><li>• Attend a closing meeting with the audit partner and the client</li><li>• Draft a letter of representation</li></ul>
<b>Element AU9</b> <b>Prepare a formal audit report</b>	<ul style="list-style-type: none"><li>• Draft the audit report in accordance with current auditing standards, relevant legislation and regulations including a description of key audit matters as applicable</li><li>• Arrange for this to be reviewed and confirmed by the audit principal</li><li>• Explain the consequences of any qualification of the audit report to relevant stakeholders</li><li>• Ensure that audit files adequately document the reasons for any qualification, together with relevant discussions, before the audit report is signed</li></ul>

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## Unit AQ1 – Prepare for and plan the audit process

ELEMENTS	
<b>AU1</b>	Identify ethical, legal and engagement requirements on an audit
<b>AU2</b>	Determine the level of audit risk
<b>AU3</b>	Evaluate the risk within an organisation’s internal control structure

### EXAMPLE 1

#### AU1

One of my clients is a media company that owns the local regional radio stations. On this assignment, I acted as the audit manager responsible for the whole of the audit which was undertaken in Nov 2019.

Prior to beginning the audit, I prepared a new engagement letter for the year to cover our services provided. Due to new data protection legislation, I had to ensure that the client was provided with the most up to date engagement letter to cover the changes on our handling of their data.

Once the engagement letter was signed, I selected my team for this assignment, in agreement with other managers at the firm. I then met with the client to discuss the scope of the audit and arrange a timetable to attend the premises to gather and obtain the evidence with my team.

I reviewed the previous year’s audit file as I had not completed that audit. This allowed me to gather information on the key risk areas. In addition, I carried out further research around the company, any recent news stories and specialist industry insights to ensure I had suitable knowledge prior to commencement of the audit.

One of the key areas of focus for me during the audit was the valuation of properties. Due to seeking an additional funding package, the firm had looked to revalue its properties during the year. However, during the audit I discovered that the firm had reflected this in the accounts by recording new assets, and the other side of the entry had gone to administration expenses. I had to discuss with management that this was not the correct treatment, and that the firm had to follow the revaluation model to comply with accounting standards. I explained this to them and provided guidance on the correct treatment to amend their accounts, including the required disclosure in accordance with IAS 40.

Following this, I discussed this with the team to make them aware of the issue and understand the applicable accounting standards. Due to the values and number of properties, I had to ensure they remained vigilant to identify any other property transactions, as they could have a material effect on the financial statements and so may have an effect on the audit opinion.

In order to ensure the valuations were accurate, I reviewed the reports from the appointed surveyor and discussed the valuation reports with the team.

#### AU2

I acted as the audit senior for an assignment for a care home company whose y/e was 31/3. The company had five care homes in England. The company had both private and state funded individuals in their care.

At the planning meeting held in May 2019, it became apparent that some of the key risk areas included the handling of petty cash and ensuring government funding was used appropriately. As a result, I was responsible for the audit of these areas. Due to this identification, I had a discussion with the audit manager and agreed to adjust our levels of performance materiality due to the increased risk of these transactions becoming pervasive to the financial statements. I also agreed to carry out a further walkthrough of the petty cash procedures with staff to determine if the procedures in place were suitable.

For the petty cash, I carried out spot checks for all petty cash boxes. Each box had a float of £2,000 per home, and I had to ensure that this was in place, or where this was not in place, there were receipts to account for the money that was to be replenished. In one situation, I discovered a shortfall with no receipts to explain the amount. Upon further investigation, it was discovered that a dishonest staff member was using the funds for personal expenses, and I had to report this to management.

#### AU3

One of my clients owns a chain of bookmakers. I was the audit senior and accompanied one of the juniors on the fieldwork undertaken in September 2019 as this was my first audit for the client, and the junior had previously assisted one of my peers in the prior year.

During our fieldwork it became apparent that there was a lack of internal controls surrounding the Fixed Odds Betting Terminals (FOBTs) within each of the shops. New government legislation meant that the maximum amount that a customer could spend on each spin had been lowered. The limits on the FOBTs we tested did not look to have been updated with the new limit so there was no maximum stake on how

much a customer could place on any one spin. However, the machines were meant to be set to a maximum of £2.

As the lower limit had not yet been implemented this was having a material impact on the profits recorded by the company. In addition there was also a possibility that the company would be subject to a fine for failing to comply with the new legislation.

It was also identified that the takings for the day were stored in the shop overnight and banked the following morning. The takings were put in a locked cupboard, however all staff had a key for the cupboard and the shop did not have a working alarm system in place.

I had researched the ways in which the machines could be updated and advised my client that they would need to contact the machine manufacturer and get them out to each FOBT to update the software to the prescribed lower limit. My client agreed to contact the manufacturer immediately in order to get this work started.

I also discussed the possibility of improving security within each shop in order to limit the amount of cash that was held on site overnight and who was able to access the monies held in the shop. My client advised that they had recently introduced a secure store in two of their shops which only they and the shop managers could access. In addition, they advised that the money on site would be restricted to £5,000 per unit, with any balance being collected by their secure cash in transit contractor to be taken to the bank. It was agreed that this model should be adopted across all locations.

Other audit:

### **AU1, AU2, AU3**

I am considered one of the charity experts within my firm as I have the most charity audits in my portfolio. One of the clients I worked on in December 2019 was a registered charity with a number of charity shops across the local area. I had to identify the right reporting framework before the commencement of the audit. I researched the relevant guidance on Charities SORP and downloaded a customised Charities SORP, which included the relevant disclosure requirements based on the specific activity of our client. I also watched a webinar on the main risks related to charities and discussed the recent changes in regulation with a colleague who specialises in charity work.

There were two main risks that were identified in relation to the charity. One of them was whether significant donations to the charity that were required to be spent in a particular way were correctly identified and treated. The other identified risk was around the lease contracts that the charity had in relation to a couple of the shops. The charity had an internal control in place with regards to the first risk, which was included in the audit programme. I also designed an additional substantive test on the lease contracts.

The above test of internal control was performed and was found to be effective. Each donation that came with specific instructions had to have these noted on the system. The IT system did not allow a donation with a restriction to be spent unless the code used for the expenditure matched its purpose. These donations also needed to have a separate managerial approval.

With regards to the shop leases the review identified two onerous leases, which led to an increased provision and additional disclosures in the financial statements.

### **EXAMPLE 2**

#### **AU1**

I was involved in the preparation of an audit proposal for a new client that we were engaging who operated in the beauty sector, where the firm supplied products to salons and wholesalers of beauty products.

As a new client, I had to draft a new engagement letter, ensuring that the letter contained the engagement terms and took account of new data legislations. In addition, I had to obtain information for money laundering purposes. I followed the 'Know your client' policy of the firm and contacted the individuals to arrange for them to bring copies of passports and proof of identity.

Once the engagement was confirmed, I met with the clients in January 2019 as the lead audit manager to discuss a timetable for the audit which was scheduled for June 2019, and discussed logistics such as attending stocktakes at the various warehouses at the 31/3 year end.

Prior to the audit starting, I had to spend time researching the client. As this was a new industry to me, I reviewed the prior year financial statements and management accounts provided through professional clearance. In addition, I spent time reading the company website and industry magazines and insights to increase my knowledge and understanding of the industry.

#### **AU2**

My client in the retail sector operated a number of mini-markets and newsagent units, with 78 retail units across the country.

Prior to commencing the audit which was due to take place in April 2020, I reviewed the permanent file and the prior year accounts files to review the evidence obtained and note any areas that I may need to consider as part of my audit. I was made aware from my review that due to the large number of cash based transactions there was a high risk of theft from individual stores and so I considered this in planning the audit testing with the team. In addition, as this was a high risk area as noted by the management, they had been investing in a number of self-service tills taking contactless card payments only. As such, I had to plan time to understand this new system and increase sampling in the area.

During the planning meeting, I discussed these risk areas with the team. We agreed that we would carry out random sampling of the stores, although with a focus on the stores with higher cash sales and turnover. In addition, we would carry out an increased number of walkthrough tests, both with the cash sales and the new card payment tills. Prior to visiting the stores and determining our store samples, I also provided a questionnaire to stores where I asked them to note the processes for cash handling and card payments. This allowed me to consider any stores who were deviating from normal procedures of the company.

### **AU3**

For one of my other retail clients, I arranged as part of our audit evidence to carry out random walkthroughs of processes at a range of stores throughout Jan 2020. I attended eight stores myself, where I met with staff members who talked me through the process for dealing with individual transactions, as well as cash handling and procedures at the end of the day.

At two stores, the end of day figures did not tally up with the amount received. I was able to walk through the process for reporting shortages or differences between each store and the revenue protection officer. As one transaction was a large amount, I took my test further and followed through to discuss with the company revenue protection team at head office. I was able to see the procedures the firm took, including reviewing CCTV for any potential theft, and using the computer till system to follow through each transaction and cashing up closure. I was able to see how the team could determine that the amount was a transposition error which was identified by the amounts of money counted and the wrong amount being keyed. Along with following through of a number of other transactions, I was satisfied that the internal control procedures for loss were adequate.

### **EXAMPLE 3**

#### **AU1**

I acted as audit senior on the audit of a group of companies in the hospitality sector, who were contracted to provide catering services to a number of stadium venues nationwide.

Initially, I was responsible for arranging updated engagement letters, ensuring they covered the full engagement with the client and revised data protection requirements. Once these were signed, I arranged for a copy to be placed on the permanent file.

Prior to the start of the audit which was planned for Sept 19, I carried out background analysis, reading up on the market my client operated in to take into account any considerations that were required as part of the audit. I then attended the audit planning meeting with the audit team selected, to discuss the previous year's findings and changes to the company's operating environment. At the meeting we agreed the timetable for the audit following the audit manager's discussion with the client and taking account of our firm's commitments. We also discussed changes to the auditing standards since the last visit and considered the scope of the audit, assigning each area to a specific member of the team.

Led by the audit manager, one of the areas of the audit I was to work on was identified, which focused on intercompany loans. In addition, I was in charge of three audit juniors to supervise through the audit assignment and ensure their work on the selected audit areas was satisfactory and within budget. As they were tasked with the payroll and cash areas of the financial statements, I took time to discuss these areas, ensuring they were clear on the expectations and regulatory requirements, advising them to discuss any queries with me.

As I had not worked on this client in a few years, I reviewed the prior year's file to determine the issues from the previous year. Further, I had to review the company's website to familiarise myself with the various contracts and offerings that the company had, to ensure I was aware of the key risk areas when obtaining sufficient appropriate evidence.

As the company was a group consisting of a number of subsidiaries and associate companies, I had to trace the intercompany loans between each company and agree the balances. Further, for the financial statements, I had to ensure correct disclosure of all balances.

I traced each balance through the ledgers, ensuring appropriate explanations were made within the accounting system, and checked that the accounts had the appropriate disclosure to explain the balances between each of the companies.

During this check I noted an error with a balance going to the suspense account. After further investigation, I concluded that this was a transposition error, which was duly fixed by management upon highlighting the transaction.

#### **AU2**

I acted as audit manager on the audit of a national bar and restaurant chain.

I reviewed the information provided by the previous auditors through professional clearance, as this was a new client to my firm. This allowed me to identify the key audit risk areas.

To ensure I was aware of the client and the potential risk areas of the audit, I carried out research through looking at the company websites, social media, relevant news stories and reading industry specific statistics and information from trade magazines. This allowed me to gain knowledge of the various brands and complex group structure.

During the initial analytical review undertaken in Mar 19, I had identified that while there was a large increase in turnover, the cost of sales had increased while profits decreased. There was also an increase in trade creditors and so I had to consider that the firm may be overtrading in the competitive environment they were operating in.

After investigating the changes and through discussion with management, I became aware that the directors had chosen not to pass on the cost onto the customer in order to retain a competitive edge. This then led me to further discuss and look into potential going concern issues. As part of this, I sought clarification from the bank on continuation of existing loans and overdrafts to the company.

#### **AU3**

I was the audit manager for a multinational manufacturing company in the petroleum refining industry. The company is a plc with a presence in around 65 countries.

Although I was involved in the audit in the previous year, I decided that since 12 months had passed it would be beneficial as part of my planning to review the prior year file. This enabled me to consider any prior year points that I wanted to incorporate into my audit, in particular prior year weakness areas. I noted there were no major weaknesses, except for the inherent risk of the firm operating in a multicurrency environment with trade tariffs.



Prior to attending the audit I compiled questions for the finance director to answer. This enabled me to design my testing and focus on key walkthrough areas. One major change this year was that in the 2020 financial year the firm had changed its payment policies and aimed to process payments upon invoice receipt within ten working days. This had meant quite a change from the old procedures, and so I ensured I built in adequate time to carry out various walkthroughs of the process, in addition to following back a sample of transactions.

Another area I chose to focus on was currency. As a multinational company the firm operated a number of currency accounts. I had to ensure that all currency transactions were converted at the correct date. The firm relied on their accounting software converting at the correct date, and so I designed walk through tests of the system, and checked the system rates against published foreign currency rates. Unfortunately, I found around five occasions where the rates had not been converted correctly. As a result I increased my sample size and arranged for the team to gather further information. However, we were able to tie the issues to two particular dates. After discussion with the finance director and IT director, I was made aware that there were some issues with systems on these days, which adequately addressed my concern.

I was able to conclude that this was not material to the financial statements after my increased sample returned no further issues. However, I took this matter to the closing meeting to discuss with the firm, and they confirmed they would take this point on board to investigate how they could mitigate the issue in future.

Another area of focus was transfer pricing across the entities. Due to recent media and political pressures on large companies around this area, I viewed this as an area of high reliance on others. As such I ensured that a substantive review of these transactions was carried out to ensure compliance with legal and regulatory requirements. Due to the complex nature of these transactions and the specialist knowledge of complex tax requirements, I enlisted the expertise of a tax consultant to assist me in reviewing and providing conclusion on these areas. Further, I questioned the in-house tax expert within my client. This enabled me to see a walkthrough of the company's detailed transfer pricing procedures. She was also able to provide me with the company's detailed policies and recording packs showing the transactions.

Other audit:

### **AU1, AU2, AU3**

One of the audits clients I worked on was the charitable arm of a large professional services organisation. It had set up a charity that operated social clubs for staff and their families and these were based across the UK. Although relatively straightforward, I had to ensure I was up to date with the latest guidance in the Charities SORP, having not undertaken charity audits for a number of years before commencing this one in Oct 19, and that the planning was performed thoroughly, despite the relatively small operation.

I identified cash as one of the main risks. The social clubs operated on a discounted basis, funded by the parent company, but staff had to contribute to their use of the clubs at a much lower rate than standard leisure clubs for example. This was on a cash-only basis and was looked after by one individual at each site. Therefore I agreed with the engagement partner that a fully substantive approach was required and we would not rely on controls testing in this case.

I tailored the audit approach steps to reflect this and set materiality at a relatively low level, given the risks involved. The parent company owned the buildings that the social clubs operated out of, so fixed assets were identified as a low risk.





## Unit AQ2 – Collect and evaluate evidence for an audit

ELEMENTS	
<b>AU4</b>	Co-ordinate the delivery of audit evidence
<b>AU5</b>	Evaluate evidence collected for an audit
<b>AU6</b>	Make judgements about the truth and fairness of an organisation’s financial statements

### EXAMPLE 1

#### AU4

As an audit manager, I ensure that staff members with appropriate knowledge and expertise are booked on each audit in July 2019. For a client in the retail sector, I held a preaudit team meeting to advise the approach and discuss any salient points. We also discussed the nature of the client, the main changes in the organisation in the last financial year, the relevant risks and any issues from the previous year’s audit.

The client confirmed that there had been no changes to their systems, group and organisation structure. I monitored the progress of the fieldwork by liaising with the audit team daily, undertook a site visit towards the end of the fieldwork and reviewed the audit file for work done to date. Post year end actual performance was also compared against forecasts prepared previously to check how realistic and accurate the forecasts were and I reported no concerns.

The audit senior was advised to monitor time undertaken by the junior staff members and to highlight any anomalies to me as soon as they became apparent. I held regular catch ups with each team member to discuss performance and objective setting throughout the audit, to ensure we are working to agreed time and cost budgets. I identified no significant issues from the work prepared by the audit team upon reviewing the audit file and evidence collected.

For my manufacturing client, I attended the client’s premises on the first day of the audit in October 2020 to ensure the client had the required information available for the team. Unfortunately a number of items had not been prepared. A timetable was agreed with the financial controller to ensure that these items were presented in a timely fashion to avoid a negative impact on the fieldwork. The audit team were then able to concentrate on other areas to avoid any further delays.

I remained on site, actively monitoring and managing resources to ensure the appropriate people were undertaking set tasks to ensure we did not overrun on cost. I also ensured I attended the client premises to undertake my file reviews. This allowed the client to see my involvement in the process and also enable any outstanding points to be addressed by the audit team more efficiently.

#### AU5

During the review of the audit of a toy making company, I felt insufficient audit evidence had been obtained in relation to bad debts. I requested additional testing of this to satisfy the provision in the financial statements. I also highlighted that certain areas of the file needed to be better referenced to other sections, so this was easier for the partner to follow.

Another one of my clients with a 31/12 year end was providing mechanical engineering services to oil rigs and ships. The majority of the contracts were spanning across a number of months, with some large jobs spanning across two or three financial years. Therefore the work in progress that was recorded and the revenue recognised were the main audit risks.

The company was allocating costs to specific projects based on the actual expenditure for materials, labour recharges, transport costs, etc. Revenue associated with each job was recognised based on the level of work that was completed at the time.

I agreed with the partner that we needed to perform detailed testing over the largest contracts they had. The tests included a combination of agreeing specific high value items back to source documentation, reviewing the model used for recharging costs and reviewing the assumptions in the specific contracts.

There was a minor error identified in the spreadsheet model used for the labour recharges, however, the aggregate amount was not material and no adjustment was required. The error was, however, flagged to the client and the model was subsequently amended.

#### AU6

For my client in the property sector, I performed a detailed review of the 31/3/19 financial statements to ensure that they were prepared in accordance with the relevant reporting framework.

My review included completing final analytical procedures where I ensured that any discrepancies identified were fully supported by the audit work performed and all were clearly referenced to the relevant sections of the audit file.

I confirmed all tests were completed and signed off, and that the audit file was fully complete prior to the partner's review. This approach was particularly vital for one of my retail clients, which required additional disclosures regarding the revaluation of assets that was done during the 31/12/19 financial year.

The company had performed asset revaluations for all of their fixed assets, relating to freehold buildings – shops, warehouses and factories. I had to prepare a separate working paper on the revaluations and to ensure that all of the changes in value were disclosed in line with the requirements. No issues were identified as a result of the work performed.

Other audit:

#### **AU4, AU5, AU6**

One of my clients is a local charity that helps homeless people with shelter and food. It is a relatively large client for our firm and as such it requires a number of assistants on the audit team. I selected the staff members for the audit team based on their previous experience, but I also ensured there was a balance in terms of their charge out rates, as the budget for this engagement was very tight.

Based on my previous year's experience I amended a few of the tests in the audit programme as they proved to be very time consuming but did not provide significant additional evidence. The new tests that were designed were in relation to the donations collection and administration. I reviewed the work of the audit team on a regular basis. This highlighted a few concerns regarding the readiness of the information prepared by the finance staff, which I was able to raise with the client.

The audit team performed a combination of internal controls testing, analytical reviews and substantive procedures during the fieldwork which was undertaken in Nov 20. During one of my reviews I noticed that there was a substantial increase in the rent expenditure, which was not fully supported on the file. I raised this with the audit assistant and requested further evidence. It was later confirmed that the charity signed a new lease contract for the office premises, which was substantially higher than the previous one. A copy of this contract was reviewed during the audit and no issues were identified. The reason for the increase was due to the market conditions in the area. This was flagged for the attention of the partner as the significant rent increase may have other implications for the charity in the future.

The charity receives a substantial grant every year, however, the grounds for receiving the grant had been changed. I needed to assess whether the charity would be eligible for the grant in the current year, as this could impact on the going concern of the charity. I reviewed the new grant application process and discussed the implications of this with the trustees. I was able to gain reassurance that the charity would continue to receive the grant and that the going concern basis was appropriate for their financial statements.

#### **EXAMPLE 2**

##### **AU4**

As I was promoted to senior audit manager in Jan 2020, I now have responsibility for the management of the audit, including staff planning, evidence collation and dealing with client management to discuss the audit.

One of my clients is a large multinational group operating in the Geoengineering sector. They have a number of offices across the UK, often in remote locations. As audit manager, I had to take location into account when setting my time and fee budgets. I had a discussion with the client to explain that high travel costs due to location would have an impact on the fee. They understood this although suggested that we carry out the audit from their head office. Whilst logistically advantageous, it was imperative I reviewed processes and procedures at all locations in order to form the audit opinion. This was discussed at the initial meeting and a plan suiting both parties ensuring adequate audit evidence was obtained, was agreed upon. The audit fee was also discussed at this meeting and an element of the increase was negotiated and agreed upon.

During this audit in Apr 2020, I took time to visit the various sites with the team. This allowed me to see the evidence being obtained first hand, and also ensure its adequacy. Visiting the site also allowed me to recognise areas where further evidence was required, such as when a recurring IT issue meant the system was reporting incorrectly. When this was discovered, I guided the audit juniors on the further evidence and walkthrough samples that would be required.

##### **AU5**

For my retail client, I met with the team at the end of each week of the fieldwork which was undertaken in Oct 2020 to assess the audit evidence obtained. Where I had questions, I would discuss with the team and determine if I had to arrange for further evidence to be obtained. One area of concern was stock; my juniors were unable to obtain a full stock report due to a system outage. I explained the importance of this to my junior and set them a task to ensure this would be obtained the following week due to the material impact on the accounts, especially in relation to the stock valuation in accordance with IAS2.

Reviewing the audit file weekly allowed me to ensure the audit pack was fully completed and appropriate evidence was being obtained. I reviewed the audit evidence alongside the financial statements and analysed each area of the file to ensure that they gave a true and fair view.

Using this approach, I was comfortable that the evidence from my team was accurate and there were no inconsistencies in our audit approach.

##### **AU6**

For my client in the construction sector, they operated a group with a number of companies. As part of the structure, there were a large number of intercompany loans.

For each company, my team had obtained evidence around the bank transactions between each company. I took time to review each transaction and follow through to the notes in the accounts, as well as through to the lead schedules on file to ensure the accuracy of each transaction being reported. This enabled me to conclude that the notes to the financial statements were true and fair.

At the end of the audit, I collated the misstatements and inconsistencies in the transactions and compiled these in a report to discuss with management at my closing meeting held in Aug 2020. None of the items identified were material, however it did seem to suggest some weakness in staff knowledge and processing errors.

I discussed this with management, who during the meeting also involved their change lead, who looked at the issues and agreed for them to be taken forward. Following the meeting, I obtained confirmation of this to put on file and follow up at next year's audit.

After my review of the statements and the response from management, I was satisfied with the evidence obtained and prepared a draft audit report, noting an unmodified opinion on the group audit.

### **EXAMPLE 3**

#### **AU4**

One of my new clients was a large group, consisting of a group holding company and a number of subsidiaries as well as one joint venture. I acted as audit manager and booked relevant team members onto the audit work in the office job planner. I reviewed performance reviews from previous audits to ensure an appropriate level of expertise across the audit team.

As part of the planning meeting held in Feb 2021 I got the team together to discuss and agree how the audit will be coordinated, including the allocation of work, considering their experience.

I had set an ambitious time and cost budget as we were hoping to retain this client for future audits. On a weekly basis I monitored costs incurred against budget and where variances arose, I discussed these with the senior to understand whether the overruns were due to client or audit team inefficiencies. For instance, I noticed the junior had spent longer on the trade receivables section than planned. On investigation it was clear that he was not familiar with this area and so additional time was incurred which could not be recovered from the client. On this occasion, the firm wrote off this time and I passed the feedback to his career counsellor who included it as part of his on-going development plan.

For one client in the IT industry, the UK audit opinion feeds into the group audit which is based in Japan. There is a very tight reporting deadline and the audit has to be tightly controlled to allow for the audit to be started and finished across a four week period requiring an end of May sign off. On the first day of the 2021 audit, the finance director informed me that there had been an issue with some of the information and not all information was ready. This resulted in the team having to work significant amounts of overtime to meet group reporting deadlines and as such I agreed a further fee adjustment with the engagement partner and the client.

#### **AU5**

For a client in the clothing business, I reviewed the work undertaken by a junior member of staff on debtors. There was a material amount of general bad debt provision that had built up over time. The junior member of staff had spotted that some of the general provision could actually be moved into a specific bad debt provision in the 31/12/20 y/e accounts against specific invoices for specific customers and therefore could be allowable for tax purposes. I discussed this with our internal tax department to confirm my understanding and then was able to ask the client to adjust the bad debt provision accordingly.

For a client in the natural resources sector, I reviewed the audit evidence for the risk areas identified. For example, I reviewed the work carried out on journals posted during and

at year end to ensure they were supported by appropriate explanations and corroborative evidence. I reviewed all the work performed on file and raised review points for staff to clear which I would discuss with them. I would ensure that my review points were cleared and I also addressed any review points raised by the partner. I discussed the summary of unadjusted audit differences with the client at a meeting in July 2020 and recommended that they posted these, which they agreed to.

#### **AU6**

When I carried out a final review of the financial statements of one of my audit clients in the retail sector, I identified that they had not provided sufficient disclosures in the financial statements.

I discussed the matter with the engagement partner and it was agreed that I would first discuss this with the finance director of the company to ensure our understanding of the matter was correct. The finance director explained that due to the nature of the investments, it was thought that full disclosure of the changes was not required. I discussed the issue at length and the client and I eventually agreed that further disclosure was needed and the financial statements were updated.

Another client in the delivery and distribution sector had an unusually low creditors balance in 2020 when compared to the previous year, and I undertook some additional testing on pre-year end invoicing as well as further post-balance sheet cash testing to ensure it was materially correct.

I also discussed the reasons with the client, who explained that they had reduced their orders with a supplier that year; due to poorer trading conditions the usual, large pre year end order had not been placed.

Other audit:

#### **AU4, AU5, AU6**

I spent some time on the audit of a national housing association which was comprised of hundreds of individual tenancy schemes, that all required an audit. Each individual scheme was quite simple, particularly as I undertake several housing association audits each year, but it was a big task to complete all the required audits within the required timescale and within budget. It was a purely substantive approach and required careful budgeting to ensure the work came in at the required recovery level. I had a team of staff working with me and I allocated each member of staff a share of the schemes, plus I also completed several myself.

For each scheme, I had to verify the income and costs either to a sample of receipts and invoices or to a central charge from the main association, to ensure that each scheme was reporting its income and expenditure account correctly. We used the housing associations' SORP for guidance on disclosure in the accounts. Each scheme fed into a central consolidated account and I also undertook a final review of the consolidated accounts for completeness. I identified that several of the schemes were running close to a deficit and asked the client about this. The client had a documented plan of action in place, which included using some reserves if needed, which was allowed under the terms of the tenancy schemes. I flagged this as a risk to the engagement partner, for discussion at the closing meeting which was held Aug 2020.



## Unit AQ3 – Review and report on the findings of an audit

ELEMENTS	
<b>AU7</b>	Review the performance of an audit
<b>AU8</b>	Advise on the findings and implications of an audit
<b>AU9</b>	Prepare a formal audit report

### EXAMPLE 1

#### AU7

Through my role as an audit manager in our firm, I am responsible for the oversight of all audit procedures. As part of this, I am responsible for three audit assistants and two audit seniors including reviewing all work for completeness.

One of my clients in the automotive sector operates a number of used car showrooms. As a result, the team had to split up during the audit to attend multiple sites during the fieldwork undertaken in May 2021 to ensure appropriate testing. Using our system, all staff were able to upload their work in progress to allow me to review this. For all of the audit team, I had to review the work to ensure that it was not only accurate but that the level of testing was sufficient across all sites.

Upon completion of the audit testing my role was to finalise the audit file. After reviewing each section of the audit carried out by the various staff, I had to collate the file for my director's review. As part of this, I had to ensure that the disclosure checklist was fully completed, and that all lead schedules, working papers and the financial statements were cross-referenced.

Prior to sending for final partner review, I revised the notes to the accounts to ensure that the required disclosures were correct and corresponded with the evidence on the audit file.

#### AU8

I acted as the audit manager for a construction client that our firm had won in July 2019.

Once the audit file was ready for partner review I scheduled time in their diary for review to discuss our findings and her opinion on the quality of the work performed. After some questions around the liquidation of one part of the group and a discussion around intercompany transactions which I explained, the partner agreed with my assessment and was satisfied with the level of work that had been performed; she concluded there was sufficient, appropriate evidence to support the audit opinion.

We also discussed the various control improvements I had identified within the entity. After a review of my letter to the management of the company, she agreed it was to be issued

to the client. I also prepared the letter of representation and collated the meeting pack to present to the client during the Oct 19 closing meeting, along with the audit opinion letter.

The client agreed with our overall assessment and was interested in taking on board our recommendations for control improvements. The minutes from the closing meeting with the client were recorded and I ensured they were included in the electronic audit file once signed off by both parties.

#### AU9

In each audit, I have responsibility for preparing the audit report in accordance with current audit standards. The majority of audit reports prepared have been unqualified, as the audit work undertaken has provided sufficient comfort that the financial statements provide a true and fair view.

However, for one of my medium sized manufacturing clients I had identified stock and work in progress values as risk areas as there was no formal job costing system in place. I therefore adjusted the audit approach accordingly as stock was a material area. Despite the tailored audit approach and the testing undertaken, I was not able to gain sufficient comfort that stock was valued at the lower of cost and net realisable value in accordance with IAS2 Inventories.

I presented my findings to the audit partner and recommended that the audit report be qualified on the basis of limitation of scope. I drafted the proposed wording for the audit report for the 31/12/20 y/e accounts which the audit partner reviewed and together we discussed the report with the client. The client accepted my explanation and agreed to the qualified audit report. Notes of all discussions and a copy of the signed report were kept on the file.

For a retail client, I reviewed all areas of the audit file, including the closing sections, disclosure checklist and the statutory financial statements to ensure the audit file was complete, objectives had been met and all significant matters outstanding had been disclosed to the audit partner. I drafted the closing meeting agenda which was held Mar 2021, attended the meeting with the audit partner and drafted the minutes.

Other audit:

### **AU7, AU8, AU9**

For my charity client I reviewed all of the audit work and ensured that previous review points were cleared by the relevant staff members. I held a short informal meeting with each one of the audit team members where I provided them with feedback about their performance and what they can do in the future in order to avoid some of the mistakes that they had made. I also noted their contribution to the audit and highlighted areas where they performed particularly well.

The disclosure checklist was prepared by the audit senior. However, I reviewed all areas that were material or high risk in order to ensure that the financial statements were prepared in accordance with the charities SORP.

Following the partner's review of the file there were some concerns raised with regards to the future expenditure level of the charity. They had signed a lease contract for the office premises for the next five years, which was not very favourable for the client. Our recommendation was to identify areas where expenditure could be reduced in order to offset the additional rent increase. This was included in the management letter and was discussed with the client during the closing meeting held March 2021.

I also drafted the letter of representation following the most up-to-date template used by our firm, which was signed by the client the day the financial statements were signed. I also drafted the audit report, which was reviewed and signed by the partner. The client was satisfied with both the management letter and the audit opinion.

### **EXAMPLE 2**

#### **AU7**

For my retail client, I had a weekly review of the evidence obtained to date. This allowed me to review the information obtained by my team and ensure that it was accurate and complete, and that the information on file was appropriately referenced. I took this time to also complete the disclosure checklist for the file.

One area of testing focused around compliance with the Payment Services Legislation. The company previously charged fees on card transactions under £5. However, the legislation which had come into effect now prohibits this. Through reviewing the testing I took extra care to ensure this had not happened. I felt that the transactions testing did not provide sufficient comfort, and so I set my team a task to obtain confirmation from management on this, and enquire as to the steps they had taken to ensure the new legislation was complied with. As this task was completed by a new, junior member of the team, I discussed the importance of such areas and how they could obtain more evidence in future.

#### **AU8**

Upon conclusion of the evidence obtained and my review of the work of my audit team on my geoengineering client, I drafted a management letter to discuss the audit evidence at the 2020 closing meeting. Prior to the meeting, I sent this to the client to give them time to review the information and prepare questions. I then attended the meeting a week later with the client. We discussed one particular area concerning project grants from the Scottish Government, and one instance where the company had failed to meet the terms

of the funding. The company was able to provide written evidence from the Scottish Government that they had noted the exceptional circumstances and would not be seeking repayment of the grant. I explained that although it was not material to the financial statements they should consider noting such matters in future.

Following the meeting, the company provided me with a written response of the matters discussed, and I included this on the file prior to finalising the report.

#### **AU9**

On each of the files I manage I am responsible for preparing the audit report. As part of this preparation I consider whether any material misstatements have arisen in the financial statements, together with any post-balance sheet events which may affect the figures. The majority of my clients have been issued with non-qualified audit reports, but there have been occasions when this has only been concluded following discussions with the client directors.

Following the meeting with my IT sector client held in Oct 2021 and obtaining a written response to the management meeting, I drafted the audit report. As discussed at the meeting, my opinion included an emphasis matter paragraph to highlight a fine the company received due to a minor data breach. It did not affect going concern although due to the serious nature of such a fine I felt it needed to be highlighted and the client was happy with this approach.

Upon drafting the audit report, I passed this to the firm's audit principal. I spent time with him following his review to discuss the audit prior to him signing off the report.

During the audit of my manufacturing client, it was highlighted that sales had considerably reduced as a result of losing one of their major clients. This gave rise to going concern issues which I needed to consider prior to signing off. We delayed signing the accounts for as long as possible to give the company time to pursue other potential sales leads to replace the lost client. Following the year end, sales had improved to such an extent that comfort was gained that the business would continue on a going concern basis and therefore there was no impact on the 31/12/20 y/e audit opinion.

### **EXAMPLE 3**

#### **AU7**

I acted as the senior audit manager on a multinational client who operated in the mining industry. This company had subsidiary undertakings registered worldwide although the group headquarters were in London.

The firm had offices covering seven of the regions where the subsidiaries were based. Two of the component auditors were external to my firm which made the administration of the audit quite a challenge. I had to spend a lot of time on web calls to ensure sufficient and timely co-ordination of the audit evidence.

It became apparent that this could not all be done remotely and so I attended four of the seven sites overseas where I felt I had to spend more focus on reviewing key areas of evidence to ensure sufficient appropriate evidence was collated. During these visits in Apr 2021, I was able to attend the client premises and component auditor offices and fully review the files and work prepared by each component



auditor to check sufficient testing had been carried out, correct conclusions were drawn and the files for each subsidiary company were fully completed.

By conducting this high level of scrutiny, I was able to take comfort that I could rely on the component auditor evidence. Also, this was an excellent opportunity for me to engage with our overseas offices and learn more about the requirements of such a large global audit.

#### **AU8**

I was the audit manager for a publishing group and its subsidiaries.

Prior to the 2019 closing meeting there was a fire in one of the printing factories and the nearby warehouse. This could have had significant implications on going concern for one of the subsidiaries therefore I ensured this issue was added to the agenda for the meeting.

During the meeting this was discussed with the client and they were able to provide us with additional information such as figures of the estimated losses, the time it would take for the factory to be operational again and updates on communications with their insurance provider to date.

Additionally, the group confirmed that they would support the subsidiary financially if needed and would provide a letter of support if required. The partner and I concluded that at this stage a disclosure in the financial statements would suffice and no further work was required as there was no immediate issue of the subsidiary not being able to discharge its debts.

I informed the client of this during the conclusion at the closing meeting, and notified them that the audit would be concluded with an unmodified opinion if this issue was adequately disclosed in the financial statements.

I updated the electronic audit file with notes of the client discussions and notes of the minutes of the closing meeting. I then carried out a final review of the financial statements to ensure the required disclosures were present. Following this, I passed the file to the partner for final review.

#### **AU9**

In all of my audits I act as audit senior and prepare the draft audit opinion for the engagement partner to review. The majority of the audit opinions were unqualified and supported the financial statements having a true and fair view.

For one of my audit clients, a manufacturer of industrial machinery, there was doubt over the long term viability of the client as it was a UK subsidiary of a parent company that had entered Chapter 11 bankruptcy in the United States. Whilst the client was confident that the parent company would emerge from Chapter 11 protection in due course and trading would continue, there was a fundamental uncertainty about this and I drafted a qualified audit opinion for the partner to review.

This outcome was not unexpected, as we had been aware of the Chapter 11 issue since the start of the planning stage. Ultimately, the client accepted a qualified opinion had to be issued on the 31/12/19 financial statements and the minutes of our discussions, along with the client's acceptance, were included in the audit file.

I also worked on the audit of a group of companies in Mar 2020 in which the main trading subsidiary operated branches in the UK and Belgium. I prepared audit instructions for the auditors in Belgium and assessed the competence in accordance with international standards on auditing. I maintained regular dialogue with the Belgian audit team and reviewed the reporting pack which they provided. Once reviewed, I concluded that we were able to take reliance on the audit work performed by the branch auditors and consolidate the results into the UK Company before issuing our audit opinion.

Other audit:

#### **AU7, AU8, AU9**

I audited the financial statements of a large pension fund, which was quite a challenging piece of work due to the size of its balance sheet and investments. Materiality had been set at £1bn and throughout the audit I had ensured that the audit team stayed focussed on materiality and to not unduly focus on smaller errors. I reminded them that an audit is to present a true and fair view. This was because the materiality was unusually high, even for a firm as large as mine.

Once all the substantive testing was largely completed, I reviewed the files created for each section of the audit, and discussed any issues arising. I also gave the team feedback on their performance and was able to share some complimentary feedback to them from the client, who was pleased with how smoothly the audit had progressed.

Due to the nature of the client, I completed the disclosure checklist myself as I have a number of other pension audits, rather than delegating it to the team leader. However, I explained the process to the team leader so they could learn and put their learning in to practice on the next pension fund audit.

The engagement partner reviewed the files and provided me with a list of questions to address. In particular, there was concern over the amount of audit testing done on the level of investment management expenses, as these fluctuated significantly. I was able to explain why the sample size was chosen and provided evidence for the main fluctuations from the client, which the team leader had verified to supporting documents for accuracy and completeness. The partner was satisfied and asked that the evidence on file was expanded to support our findings. Once this was done, the partner was satisfied and I was able to draft the audit report which was agreed with the clients at the closing meeting held July 2020.