



# The Audit Findings for First Wave Housing Limited

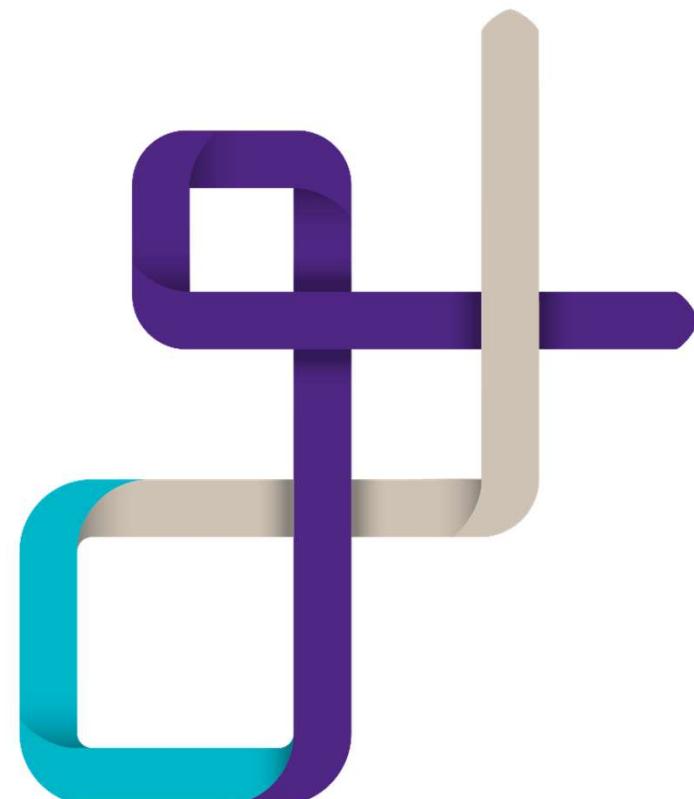
**31 March 2022**

**20 September 2022**

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# Grant Thornton at a glance

## Grant Thornton International Ltd

- Fee income \$5 billion
- Over 135 countries
- Over 55,000 people
- Global methodologies, strategy, global brand, global values – consistent global service



FTSE 100 are  
non-audit clients

**51%**



People  
worldwide

**58,000**



Independent nominated  
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**No.1**

UK offices (+  
Cayman and British  
Virgin Islands)

**27**



Largest auditor, UK's  
top privately-held  
companies

**6th**



Member firms of  
Grant Thornton  
International Ltd

**135**



## Americas

- Fee income \$2.6 billion
- Over 36 countries, presence in all major financial and economic centres
- Over 17,000 people, including partners



## Europe, Middle East and Africa

- Fee income \$2.1 billion
- Over 82 countries, presence in all major financial and economic centres
- Over 22,000 people, including partners



## Asia Pacific

- Fee income \$1 billion
- Presence in over 18 countries, in all major financial and economic centres
- Over 18,000 people, including partners



**Private and Confidential**

First Wave Housing Limited

Civic Centre  
9 Engineers Way  
Wembley  
HA9 0FJ

20 September 2022

Dear Sirs

**Audit Findings for First Wave Housing Limited for the year ended 31 March 2022**

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with the Board.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [www.grantthornton.co.uk/en/about-us/leadership-and-governance/transparency-report/](http://www.grantthornton.co.uk/en/about-us/leadership-and-governance/transparency-report/)

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Stephen Dean

Director  
For Grant Thornton UK LLP

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**Chartered Accountants**

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## Status of the audit and opinion

# Status of the audit and Audit opinion

**Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.**

- 
- Specific queries and certain sample items to be resolved: debtors, creditors, property additions, revenue, and expenses
  - Journals testing of selected items
  - Going concern review
  - Final accounts reviews
  - Letter of representation and subsequent events confirmation

**Status**

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

**Our anticipated audit report opinion will be unmodified**

# Observations in respect of significant risks

Risks identified in our Audit Plan	Commentary
<b>1</b> <b>Improper revenue recognition</b> <ul style="list-style-type: none"> <li>• Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</li> </ul>	<p><b>Auditor commentary</b></p> <ul style="list-style-type: none"> <li>• The audit work we performed was:             <ul style="list-style-type: none"> <li>– Reviewing of revenue recognition policies.</li> <li>– Performing a walkthrough to confirm our understanding of the processes and controls through which the business initiates, records, processes and reports revenue transactions.</li> <li>– Agreeing a sample of the rental income to the supporting rent agreements.</li> <li>– Reviewing income generating activities and perform sample testing on material other revenue streams by agreeing a sample of transactions to supporting documentation.</li> </ul> </li> <p><b>Findings and conclusion</b></p> <ul style="list-style-type: none"> <li>• The sample testing is not yet complete but to date no issues have been noted</li> </ul> </ul>
<b>2</b> <b>Management override of controls and system change</b> <ul style="list-style-type: none"> <li>• Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities.</li> <li>• In the middle of the financial year the accounting system was changed from Oracle R12 to Oracle Cloud which constituted a significant system change and created an opportunity for management override of controls and a greater risk of error.</li> </ul>	<p><b>Auditor commentary</b></p> <ul style="list-style-type: none"> <li>• The audit work we performed was:             <ul style="list-style-type: none"> <li>– reviewing of accounting estimates, judgements and decisions made by management                     <ul style="list-style-type: none"> <li>– Valuation of properties (see page 7)</li> </ul> </li> <li>– testing of journal entries using risk scoring analysis</li> <li>– reviewing of unusual significant transactions</li> <li>– Understanding changes in controls arising from the change in the IT system through inquiry and journal walkthroughs</li> <li>– Agreeing the closing balances in R12 to the opening balances in Oracle Cloud and reconciling the transactions in both systems to the financial statements</li> </ul> </li> <p><b>Findings and conclusion</b></p> <ul style="list-style-type: none"> <li>• Undertaking the change in system mid year created difficulties and the need for a number of management adjustments. Misstatements were not found in the financial statements arising from the change in system but numerous meetings and management amending working papers was required for them to demonstrate the transactions did reconcile.</li> <li>• The journals generated for testing were taken from the combined transaction listing of R12 and Oracle Cloud but this created problems so the ledgers were then analysed separately. This testing of journals is not yet complete.</li> </ul> </ul>

# Observations in respect of significant risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>③ Valuation of social housing and investment properties</b></p> <ul style="list-style-type: none"> <li>As a matter of accounting policy, the company holds its housing properties at valuation. This is measured on an existing use for social housing basis. The investment properties are also held at valuation on an open market basis. Both require significant judgement and there is a risk that these revaluation measurements are materially misstated.</li> <li>The prior year accounts included a revaluation of the Granville Blocks from £12m to £nil. However, in the current year, the blocks have been split between the social units with a residual value after remediation works of £nil and the intermediate rented units with a residual value of £3.53m after remedial works. This raised the challenge whether the smaller Cash Generating Units should have been identified in the prior year, and whether a prior period adjustment is required.</li> </ul>	<p><b>Auditor commentary</b></p> <ul style="list-style-type: none"> <li>The audit work we performed was: <ul style="list-style-type: none"> <li>Obtained copies of the valuations prepared by management's expert and corroborated the key inputs.</li> <li>Used an internal expert employed by Grant Thornton to assist with the audit of investment properties.</li> <li>Considered the credentials and independence of the valuers and discuss with them their key assumptions and compare these to available market data.</li> <li>Reviewed management's reconciliations between rental data, revenue recorded during the period, and information provided to the valuers.</li> <li>Held discussions with valuers to ensure that the valuations have been prepared according to the RICS 'red book' standards, and the requirements of FRS 102, as well as on a consistent basis with prior periods.</li> <li>Reviewed the prior year revaluation due to the Granville Blocks remedial works required assessing management's judgment over the challenge smaller CGUs should have been identified.</li> <li>Reviewed the subsequent events disclosure in regard to the transfer of the Granville Blocks units to Brent Council and i4B on 4 April 2022. Also reviewed the disclosure on the debt refinancing with the Council on 1 April 2022 in the subsequent events note undertaken at the same time as the transfer of properties.</li> </ul> </li> <p><b>Findings and conclusion</b></p> <ul style="list-style-type: none"> <li>On the prior year full impairment of the Granville Blocks, we have been determining whether it constituted an error of £3.53m as some intermediate rental units in the block were subsequently disposed of for this sum to i4B Holdings Limited. Our work is not yet complete but as the decision to consider separating the units and selling them separately was made after the 2021 financial statements were signed, management are confident the accounting treatment in the prior year was correct.</li> <li>No issues have been noted in the work on the current year valuations.</li> </ul> </ul>

# Observations in respect of other risks

## Going concern commentary

### Management's assessment process

Management have produced a detailed business plan and budget, which included a 5 year financial forecast.

They have used this to model their expected cashflows and profit for the going concern period (12 months from the expected date of signing).

### Auditor commentary

Our work has consisted of:

- Reviewing management's forecasts and budgets and comparing to the audited results for the current year;
- Reviewing the impact of COVID-19 on the rental income collected during the current year and any impact on the forecast period to date;
- Reviewing the sensitivities produced by management and considering their adequacy;
- Considering whether rising costs have been sufficiently incorporated in the forecasts and the extent of their possible impact;
- Assessing the stress testing in management's forecast and the reverse stress test in what would create material uncertainty and how this is mitigated; and
- Testing the mathematical accuracy of the forecasts.

We have noted that the Company is reliant on the continued funding and support of the London Borough of Brent (for example the SLA and debt agreement). We have therefore requested that management obtain a letter of support from the London Borough of Brent.

Our work is not complete.

# Other findings – significant matters discussed with management

## Significant matter

## Commentary

**I**

Significant events or transactions that occurred during the year

- The change in the accounting system mid year from Oracle R12 to Oracle Cloud created complexity in ensuring all the transactions were correctly included. This has been documented in the Significant risks management override of controls section.

## Auditor view

- This is a one off event and we have assurance from reconciling the transactions to the financial statements that the transactions as provided are complete.

## Management response

- This finding is acknowledged

# Other findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> <li>Turnover comprises rental income receivable in the year. Rental income is recognised from the point when properties become available for letting, net of voids. The Company operates both fixed and variable service charges based on the services received by each property. All income is recognised on a receivable basis.</li> </ul>	<ul style="list-style-type: none"> <li>The accounting policy is appropriate under the accounting framework</li> <li>The disclosure of accounting policy is adequate</li> </ul>	
Going concern	<ul style="list-style-type: none"> <li>The is a registered housing provider owning 329 properties at 31 March 2022 with a net book value £55.8m the funding for which is fully provided by the Council through loans of £35.1m secured against these properties. The Council has confirmed in writing, of its intention for FWH to remain as a going concern for at least twelve months from the date of approval of the annual report and financial statements. The Directors have reviewed the forecasts and have a reasonable expectation that the company will continue to operate as a going concern for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>The policy is appropriate under the accounting framework</li> <li>We have suggested improvements in the disclosure of the going concern policy in regard to disclosing the assumptions and stress testing undertaken which are in progress.</li> </ul>	
Judgements and estimates	<ul style="list-style-type: none"> <li>Key estimates and judgements include: <ul style="list-style-type: none"> <li>Provision for doubtful debts on rental income: this provision requires management's best estimate of the likely rent collection rates based upon past experience and trends.</li> <li>Valuation of properties: The intermediate rented properties have been classified as social housing properties and were valued by JLL as at 31 March 2022 on the basis of existing use value - social housing (EUV-SH) with special assumptions. The special assumptions are those applied to the 15 year term that departs from EUV-SH to reflect the nature of the Company's holding for the properties purchased with a grant, assuming market rents with rental growth capped at RPI and allowing for sales.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The policies are appropriate under the accounting framework</li> <li>The estimates are undertaken in an appropriate way and the properties estimate has been tested as described in the significant risks section and for doubtful debts the assumptions have been assessed have been tested and whether the provision is reasonable and sufficient substantively tested.</li> <li>The adequacy of the disclosure of the accounting policy is to be confirmed.</li> </ul>	TBC

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

Issue	Commentary
1 <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"><li>• We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures</li></ul>
2 <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"><li>• We are not aware of any related parties or related party transactions which have not been disclosed</li></ul>
3 <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"><li>• The principal laws and regulations with which the company complies include the Housing SORP 2018 update, United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102, the Accounting Direction for Private Registered Providers of Social Housing 2022, and the NHF Code of Governance 2020. We are not aware of any significant incidences of non-compliance.</li></ul>
4 <b>Written representations</b>	<ul style="list-style-type: none"><li>• Representations will be requested from management.</li></ul>
6 <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"><li>• We requested a year end bank balance confirmation from Natwest, which was received.</li></ul>
7 <b>Disclosures</b>	<ul style="list-style-type: none"><li>• Our review found no material omissions in the financial statements</li></ul>

# Internal controls - Oracle Cloud controls assessment findings

Assessment	Issue and risk	Recommendations
<b>1</b> <span style="color: red; font-size: 1.5em;">●</span>	<p><b>Segregation of duties conflicts between finance and system administration roles in Oracle Cloud.</b></p> <p>Our audit identified the following segregation of duties conflicts for users in Oracle Cloud:</p> <ul style="list-style-type: none"> <li>• A Senior Finance Analyst had access to the Application Implementation Consultant and IT Security Manager roles.</li> <li>• A Senior Finance Analyst had access to six Brent L3 Support roles.</li> <li>• The Head of Finance had access to the IT Security Manager role.</li> <li>• Five finance users who had access to the Financial Integration Specialist role (we note that this access was revoked on 14 April 2022).</li> <li>• 13 members of the Payroll team and four members of the Learning and Development team who had access to the Brent HCM Application Administrator role.</li> </ul> <p>The Council confirmed that some of these users required this level of access to complete the closedown process for the production of the financial statements.</p> <p><b>Risk</b></p> <p>Bypass of system-enforced internal control mechanisms through inappropriate use of administrative access rights increases the risk of financial misstatement through fraud or error, as a result of users making unauthorised changes to transactions and system configuration parameters.</p>	<p>It is recommended that the Council, on behalf of FWH, undertakes a full review of all users who have been assigned access to system administration roles and revoke access to those system administration roles which do not align with the user's roles and responsibilities.</p> <p>Furthermore, the Council should undertake an assessment of the specific access that is required to complete the year end closedown process and build custom roles within Oracle Cloud rather than assigning powerful system administrator roles.</p> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• This finding is acknowledged and Brent have since implemented a plan to remove the security roles from the users post 31-Mar-2022 and this is being tracked to ensure sufficient controls are in place to avoid this risk in the future. A review will be carried out to assess the feasibility of building custom roles and taking into account cost, time and expertise needed to build these in time for the 2022/23 year end process.</li> </ul>

## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

# Internal controls - Oracle Cloud controls assessment findings (continued)

## Assessment      Issue and risk

2

### Lack of audit logging in Oracle Cloud.

Our review identified that whilst audit logging is available within Oracle Cloud, this has not been enabled.

#### Risk

Not enabling and monitoring audit logs increases the risk that unauthorised system configuration and data changes made using privileged accounts will not be detected by management, which could impact the security of Oracle Cloud and the integrity of the underlying database.

## Recommendations

It is recommended that the Council, on behalf of FWH, implement audit logging for financially critical areas including, but not limited to:

- Accounts Payable (including Suppliers);
- Cash Management;
- Accounts Receivable; and
- General Ledger.

The auditing should be sufficiently detailed to capture any changes made to Oracle Cloud such as changes to workflow approval rules or system configurations.

#### Management response

- This finding is acknowledged and a review will be carried out on the impacts of turning on audit logging for these areas in terms of cost, system performance and dependencies.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

# Internal controls – review of issues raised in prior year

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<input checked="" type="checkbox"/> • It was noted in the prior year there were multiple iterations of the financial statements due to errors or inconsistencies.	<ul style="list-style-type: none"><li>• No such issue was found in the current year.</li></ul>
2	<input checked="" type="checkbox"/> • It was noted in the prior year properties are not split into their components, such as structure and roof etc, which is required under the Housing SORP 8.16.	<ul style="list-style-type: none"><li>• As properties are all shown at fair value and do not have accumulated depreciation, component accounting will not make a material difference and so is not required.</li></ul>

**Assessment**

- Action completed  
 Not yet addressed

## Adjusted misstatements

There are no adjusted misstatements in the current year.

## Unadjusted misstatements

There are no unadjusted misstatements in the current year, and there were none in the prior year.

# Independence and ethics

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

# Fees and non-audit services

The table below sets out the total fees for audit for the current year. There are no non-audit services provided to the company.

	<b>Fees £</b>	<b>Threat identified</b>	<b>Safeguards</b>
Audit of company	31,000	n/a	n/a

- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to First Wave Housing. No non-audit services were identified
- The fees reconcile to the financial statements.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

## Communication of audit matters

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures	•	
Significant findings from the audit	•	
Significant matters and issue arising during the audit and written representations that have been sought	•	
Significant difficulties encountered during the audit	•	
Significant deficiencies in internal control identified during the audit	•	
Significant matters arising in connection with related parties	•	
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements	•	
Non-compliance with laws and regulations	•	
Unadjusted misstatements and material disclosure omissions	•	
Expected modifications to the auditor's report, or emphasis of matter	•	

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

# Appendix A: Delivering audit quality – proven success in regulatory inspections

The Financial Reporting Council (FRC) published the findings of its annual Quality Inspection of our firm, alongside the six other ‘Tier One’ auditing firms in the UK, on 20 July 2022.

## Our results

- We’re the first firm to ever be awarded the highest quality grading for 100% of files reviewed
- For the second consecutive year, we have the highest proportion of audits with the top-quality grades out of the seven major firms
- [Click here](#) to see FRC’s latest inspection report into our firm. The graph to the right shows Grant Thornton is the only firm to have all files reviewed in the highest quality grading bracket awarded (“Good or limited improvements required”).

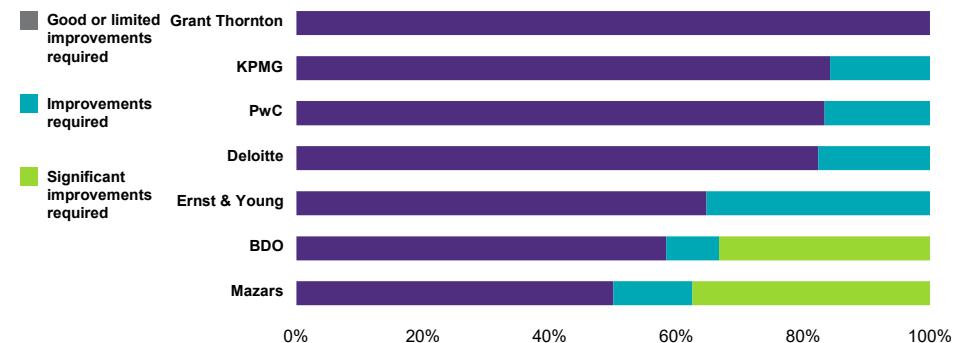
## Continued commitment to audit quality

- We continuously evolve our audit practice, so we deliver quality against the backdrop of continually evolving scrutiny and challenge, whilst ensuring we exceed client stakeholder expectations. The past two FRC inspection results are evidence of this.

## Our commitment to quality, includes us continuing to:

- **hold ourselves accountable.** It’s what our Audit Quality Board, with external audit experts, does
- **challenge management.** It’s part of our approach – to robustly explore areas that are complex, significant or highly judgmental, for example, certain accounting estimates, going concern evaluations, revenue recognition and other such areas
- **challenge ourselves.** It’s why we have a continuous improvement approach focussed on how we can be even better year on year, in technical skills, project management skills, digital, culture, and working as effectively as possible with you
- **invest, significantly.** It’s why we have centres of excellence and an Audit Quality Academy, and have grown and developed our IT audit and Digital Audit Technology practices

FRC’s Audit Quality Inspection and Supervision Report Findings 2021-22 (%), July 2022



## What has the FRC said about us?

Our firm is immensely proud of the “good practice” areas highlighted by the FRC:

- Detailed reporting and effective communication with Audit Committees
- Robust challenge and scepticism to Management’s accounting around complex areas, particularly around impairment and journals
- Discussions with those outside of the finance team to provide broader audit evidence and insight

In our recent reports, our internal use of specialists and approach to use of data analytics has also been highlighted by the regulator; both of which remain integral to the success of our results and approach to quality.

# Appendix B: Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This will impact audits of financial statement for periods commencing on or after 15 December 2021.

- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

<b>Area of change</b>	<b>Impact of changes</b>
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>• the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>• the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>• increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>• increased guidance on management and auditor bias</li> <li>• additional focus on the authenticity of information used as audit evidence</li> <li>• a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>• Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>• clarification of the requirements relating to understanding fraud risk factors</li> <li>• additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

# Appendix B: Auditing developments (continued)

## Other standards

There are also changes to International Standard for Review Engagements (ISRE) (UK) 2410 (May 2021) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity and this will impact period commencing on or after 15 December 2021. The key changes to the ISRE are included below:

### Impact of Key Changes

#### Management / those charged with governance

The clarification of the requirements for directors to assess going concern when preparing interim financial information required by the accounting standards may result in an increased work effort for management in preparing its interim financial information.

#### Auditors

Additional interim procedures are required in respect of

- updating the understanding of the entity and its environment from the previous audit or interim review, including specific factors to be considered
- strengthening the review procedures to be performed over management's assessment of the entity's ability to continue as a going concern. This change results in 'audit type' procedures being performed over going concern in a review engagement.

Revised review report to include an explicit statement regarding matters, if any, that have come to the auditor's attention that causes the auditor to believe it is not appropriate for the entity to adopt the going concern basis of accounting for the interim financial statements.

