Good practices reported in 2020/21 inspection cycle

Financial Reporting Council

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Contents

Introduction

This document sets out anonymised good practice points we reported in the 2020/21 inspection cycle, which relate to the private sector audits we inspected at the seven largest firms ("Tier 1 firms"), analysed in a similar manner to our [What Makes a Good Audit?] publication. The purpose is to share with interested parties, including auditors, audit committees, investors and other users of audited financial statements, the nature of the good practices included in our reports on the individual audits we inspected (while observing the legal confidentiality requirements which apply to these reports).

We believe that publishing this material will facilitate informed dialogue with audit committee chairs and others regarding our inspection approach and how we report. To improve readability and reduce duplication, we have combined a number of points under a single heading where appropriate.

Key Aspects of the Audit Process

The following summary, taken from our What Makes a Good Audit? publication, highlights some of the key aspects which, when done well, contribute significantly to the delivery of a good audit.

The requirements and obligations of an auditor in respect of each phase of the audit are set out in the International Standards on Auditing (UK) and in the Ethical Standard issued by the FRC. Meeting the requirements of those standards is fundamental to performing a good audit.

Risk assessment and planning	Execution	Completion and reporting
Careful risk assessment	Fieldwork must execute the agreed audit plan	Assess that sufficient, appropriate audit evidence has been obtained
Timely planning	Appropriate oversight and direction	Communicate matters of interest
Knowledge and understanding	Proportionate approach to higher risk engagements	
Informed expectations	Audit documentation tells the story	
Auditors responsibilities relating to fraud	Professional scepticism and challenge of management	
Appropriate resources	Specialists and experts appropriately involved	
Planning analytical review	Sufficient group oversight	
Planning the group audit	Consultation and oversight	
Communicated to those charged with governance		

Planning

Goodwill risk assessment

The group audit team undertook a detailed risk assessment of each of the group's cash generating units, to inform its audit approach in relation to the key assumptions used in assessing goodwill for impairment.

Going concern

The audit team clearly considered the principal risks relating to management's assessment of the group's going concern status and long-term viability; this resulted in a well-reasoned audit response. The auditor's report clearly communicated this risk assessment and audit response when explaining the nature of, and basis for, the material uncertainty.

IFRS 9 implementation

The Expected Credit Loss work programme used by the audit team was comprehensive, which enabled the team to effectively audit IFRS 9 implementation.

Acceptance and continuance – early warning system

The firm introduced an early warning system to give advance notice to entities where significant concerns, which could impact on its willingness to continue to act as auditor, had been identified. We saw evidence of communications with group management, dating back two years, where the firm highlighted concerns with the group's controls and governance and requested specific actions and improvements. As these improvements were not implemented, the firm subsequently resigned as auditor.

First year audit procedures

The audit team's 'first year audit procedures' were well-executed and supported a risk-based audit.

There was comprehensive evidence of review of the predecessor auditor's working papers and of the audit of opening balances.

Fraud risk assessment

The group instructions included a comprehensive section on entity specific fraud risks, to be used as part of the component team's discussions, and related documentation.

Responding to fraud risks

The group audit team tailored its scoping to respond to fraud risks, making good use of the business insights gained from management and the Audit Committee. It also incorporated elements of unpredictability into the audit procedures performed (to a greater extent than usual).

Journal entry testing

The journal entry testing across the group was thorough and well-controlled, with the detailed selection criteria communicated as required procedures to the component audit teams. This ensured that the identified fraud risks associated with revenue recognition and management override of controls were appropriately considered across the group.

Group audit planning

The audit team held a two-day global planning event, with participation from management. Audit planning was enhanced by ensuring that the component audit teams were aware of business developments and significant transactions in the year; and that the timeline for deliverables was agreed.

IT general controls – planning and scoping

The audit team planned and scoped their testing of IT general controls from both a bottom up and top down perspective, to ensure that all relevant applications were covered. Their plan also reconciled the scope for the current year to the prior year to confirm completeness. This demonstrated a clear mapping of IT dependencies, risks, controls and applications.

Execution – Professional scepticism and challenge of management

Going concern

- The audit team clearly considered the principal risks relating to management's assessment of the group's going concern status and long-term viability, which resulted in a well-reasoned audit response. Of particular note were:

  - The audit team's critical appraisal of current and prospective compliance with key banking covenants, including the identification of the available headroom, based on the key inputs to certain critical covenant calculations;

  - The audit team's performance of its own specific reverse stress testing and consideration of the potential impact on certain covenants of the IFRS 16 requirement to recognise certain lease obligations on the balance sheet;

  - The use of the firm's treasury specialist and economist to sense check the key assumptions used by management in the various stress testing scenarios;

  - The high standard of the interaction between the core audit team and the firm's specialists. This involved capital and debt advisory experts assessing debt arrangements and cash flow forecasts;

  - The audit team requesting management to extend its assessment of headroom and additional factors supporting the going concern assessment for an additional nine months; and

  - The distillation of the detail presented in management's models and associated downside scenarios to identify the available headroom in the key covenant inputs.

  These procedures enabled the team to demonstrate effective and constructive challenge of management. Furthermore, the engagement between the audit team and central team was timely, robust and clearly recorded, enhancing audit effectiveness.

- The audit team undertook extensive procedures relating to going concern and evidenced their conclusions clearly. They engaged actuarial specialists who challenged management's going concern assumptions from a regulatory solvency perspective and prepared a report for the engagement partner setting out their findings. In addition, the engagement partner had meetings with senior management to challenge their assumptions and discuss alternative scenarios, all of which was clearly documented. Taken together, this represented a clear summary of the audit team's challenge and the procedures they undertook to assess the entity's ability to continue as a going concern.

- The audit team's evaluation of management's going concern assessment included robust challenge of the completeness and accuracy of the disclosures made regarding a material uncertainty related to the group's ability to continue as a going concern, including the appropriateness of management's downside scenario.

- The group audit team's challenge of management's going concern assessment was robust and well-evidenced, in particular the assessment of bridging finance arrangements.
- There was detailed evidence of the audit team's evaluation of going concern, including challenge by a panel including members of the firm's technical team.
- The audit team used a 'traffic light system' to risk rate the assumptions used in management's going concern models. They compared the higher risk assumptions to actual performance data for the previous five years, obtained additional supporting information from management and summarised the output from the models into KPIs. This helped them to demonstrate the exercise of an appropriate level of professional scepticism.

Valuation of lifetime mortgages

The audit team used its Valuation team to critically assess the assumptions and validate management's inputs to the valuation of lifetime mortgages. This ensured rigorous independent challenge of management over the most sensitive elements of their estimate.

Other information in the annual report

The audit team evidenced a clear and thorough review of the other information included in the annual report, particularly the consideration and challenge of whether information was fair, balanced and understandable.

Areas requiring a high level of judgement

The audit team's approach to areas requiring a high level of judgement and industry knowledge was of good quality and involved robust challenge of key management assumptions, including effectively utilising the firm's technical team and internal specialists (travel and leisure, valuations, actuarial and pricing specialists).

Challenge of disclosures

- The audit team's challenge of the disclosures in the goodwill and intangible assets note assisted in ensuring extensive, high-quality disclosures were made over significant assumptions and estimates, including the sensitivity analyses in that area. This enhanced transparency for users of the financial statements.
- The audit working papers contained good evidence of the audit team's challenge over the nature, extent and adequacy of the disclosures relating to going concern.

Extent of scepticism and challenge of management

- The audit team presented its audit approach and findings in a way which clearly demonstrated the effective exercise of professional scepticism and consequent challenge of management in respect of key audit areas. This was demonstrated further when the audit partner delayed signing the audit opinion until sufficient and appropriate audit evidence had been obtained.

- The audit team's planning, audit procedures and basis for conclusions were clearly corroborated and commensurate with the entity's risks. This enabled them to demonstrate effective challenge of management, including in their assessment of judgemental audit differences identified.

Valuation of X assets

The group audit team prepared a comprehensive memorandum evidencing its challenge of management's key assumptions used in their impairment model. This demonstrated effective challenge over several key assumptions and inputs, including obtaining corroborative third-party evidence. As a result of this challenge, management updated the price assumption used in the model.

Fair value of financial instruments and hedge accounting

The audit team used the firm's valuation and accounting advisory teams to critically assess management's assumptions and independently challenge and validate key inputs. The use of such specialists supported the conclusion drawn by the audit team on the underlying information provided by management.

Revenue recognition and government grants

Covid-19 Support Grants are discretionary grants which may be paid by Government Departments. The audit team sent a letter to the relevant department to clarify the terms of a grant. The team used the response to inform their discussions with management and challenge them on the appropriateness of claiming specific costs (for which there was a risk as to whether they would be considered reasonable and allowable).

Consolidation of an entity

The audit team set out its review of the consolidation treatment against the appropriate Accounting Standards and considered in detail the technical issues involved. This clearly demonstrated the level of challenge and the involvement of senior members of the audit team.

Provision for Payment Protection Insurance (PPI)

The audit team's planning, audit procedures and basis for conclusions were clearly corroborated and commensurate with the entity's risks. This allowed the audit team to demonstrate challenge of management in respect of the level of PPI provisioning and related disclosures.

Impairment of goodwill and intangible assets

The audit team rigorously assessed the risks related to the carrying value of a specific cash generating unit, in particular by:

- Performing a sensitivity and reverse stress testing analysis to identify tipping points and headroom;

- Detailed consideration of the key assumptions impacting the impairment model and the link to historic results;
- Development of their own model to evaluate the challenges raised in relation to management's model; and
- Challenge and recalculation of the weighted average cost of capital determined by management's expert.

The audit team's detailed understanding, risk assessment and tailored response ensured that, overall, they appropriately challenged management and clearly justified the basis for their conclusions on impairment.

First year audit – prior year adjustments

The audit team identified a number of prior year adjustments during its initial audit procedures and interim review. In relation to each prior year adjustment, the audit team evidenced a thorough challenge of the root cause of each matter to understand the potential for the underlying causes to have a pervasive impact.

Impact of Covid-19 on the group's going concern assessment

The audit team's response to the impact of Covid-19 on the group's going concern assessment was robust, with substantial evidence of challenge of management. Specifically, the group audit team challenged management to prepare a reverse stress testing scenario and to improve the disclosures in relation to the entity's liquidity position, mitigating actions and covenant waivers. Part of this challenge was driven by the firm's internal panel which reviewed the audit team's work on going concern.

Investment valuation

There was clear evidence of detailed and comprehensive testing of the valuation of unquoted investments, including a summary of the challenges to management and clear resolution of the points raised.

Goodwill impairment

There was good evidence of the audit team challenging the assumptions used by management in the X division goodwill impairment model and the method used by management to apportion the goodwill between discontinued and retained operations.

Acquisition accounting

- The audit team demonstrated extensive, good quality testing and challenge of management's fair value adjustments in relation to a material acquisition, by agreeing these to supporting evidence and confirming that the adjustments related to information existing at the time of acquisition.

- Due to the complexity of calculation, the audit team's strong encouragement resulted in management using an expert to perform the valuation of intangible assets acquired.

Demonstrating scepticism and robust challenge

The audit team robustly challenged management's initial assessments that the Group did not face a material uncertainty relating to going concern and that no impairments of goodwill or investments in subsidiary undertakings were required. As a result of this challenge, management revised its assessments, accepting that a material uncertainty existed and that impairments of goodwill and investments in subsidiary undertakings were required.

Quality of disclosures

The audit team performed a critical evaluation of, and robustly challenged, the appropriateness of certain items being disaggregated and separately disclosed.

Deferred revenue

The audit team's challenge of the methodology and key management assumptions used in the calculation of deferred revenue relating to X was robust and clearly evidenced. This included consideration of diverse possible outcomes under an extensive range of alternative plausible scenarios.

Audit approach to significant risks

- The audit team's work in areas of significant risk was clearly set out in 'significant matter' documents. These documents clearly articulated the evaluation and challenge of key assumptions and judgements.
- The audit team's challenge of management in areas of significant risk was of a high standard. This contributed to additional impairment charges being recorded and a material uncertainty in relation to going concern being disclosed, reflecting the specific circumstances facing the company.

Long-term contract accounting

There was good evidence of detailed testing of various long-term contract adjustments, including tracing inputs to supporting evidence (for example, agreeing new concession rates to signed contracts and discussions with technical personnel).

The audit team also challenged management and corroborated whether the adjustments were in respect of new information made available after the prior year-end.

Warranty provision

The audit team extended the timing of its subsequent events procedures over warranty claims to take into account the latest available external evidence; and confirmed that the exposures were reflected within the disclosed warranty provision.

Expected Credit Losses

In relation to IFRS 9 and related impairment provisions, a comprehensive analysis was undertaken to establish a complete list of data elements used in the impairment calculations, and key data elements were then identified for testing.

Revenue and impairment

The group audit team's review and evaluation of the component auditors' work in relation to revenue and impairment was clear, with good use of 'significant matters' documents summarising the group audit team's evaluation and challenge of key assumptions and judgements relating to these areas.

Leases - IFRS 16 adoption

There was comprehensive testing of the approach to IFRS 16 adoption. Large sample sizes were used with clear evidence of challenge of management, resulting in errors being identified and corrected.

Execution – Specialists and experts

Technical provisions

The audit team engaged actuarial specialists to assist in the audit of the technical provisions. The actuarial team provided clear evidence of their challenge of the significant assumptions used for actuarial reserving, including mortality assumptions and how they assessed them as being appropriate. This work supported the valuation of the technical provisions which was identified as a significant risk and key audit matter.

Going concern

- The audit team clearly considered the principal risks relating to management's assessment of the group's going concern status and longer-term viability which resulted in a well-reasoned audit response. Of particular note were:

  - The use of a restructuring specialist to assist with the evaluation of the revolving credit facility;

  - The use of financial modelling specialists and model interrogation techniques to critically appraise the detailed financial models which underpinned management's assessment; and

  - The clearly documented and extensive consultation between the audit team and the central technical team.

  The audit report clearly communicated the team's risk assessment and audit response, explaining the nature of and basis for the material uncertainty disclosed.

- We found the going concern audit work to be extensive and of good quality. In particular:

  - The use of experts to assist in challenging the assumptions used by management in the going concern forecasts;

  - The use of a technical panel to consider the going concern conclusion; and

  - The use of reverse stress testing when assessing management's sensitivities on going concern.

- The audit team's use of regulatory specialists to consider the cash flow forecasts and the impact on the regulatory capital position enhanced the assurance obtained over the going concern risks in relation to regulatory capital compliance.

Impact of climate change

The group audit team prepared a detailed memorandum evidencing consideration of the potential impacts of climate change. This included consultations with the firm's climate change experts and enabled the group audit team to ensure that all relevant disclosures were included in the financial statements. It also informed specific aspects of the audit testing (for example, the testing of the valuation of specific assets).

Use of specialists

The interaction between the core audit team and the firm's specialists was of a high standard. In particular, the audit team's use of valuation specialists, the firm's UK chief economist and tax specialists enhanced the assessments made in respect of the Key Audit Matters. Their work provided a specialist assessment of key assumptions such as discount rates, estimated remaining useful lives, margins applied to intercompany loans, and the impact of Covid-19. In each case, the core audit team performed a thorough evaluation of the results of this work.

Impairment of property, plant and equipment

The work of an internal specialist in assessing the assumptions and methodology used by management's expert to value freehold properties was performed to a high standard and provided useful insights which enhanced the quality of the audit team's consideration of this area.

Defined benefit pension liability

The audit team identified the audit of the defined benefit pension liability as an area of particular complexity, involving significant judgment and specialist input. The audit responses were well planned and executed.

Valuation of level 3 pension assets

The testing of level 3 real estate pooled investment vehicles was executed to a high standard, including the involvement of the firm's property valuation specialists to perform a valuation review for a sample of properties.

Control deficiencies – existence of super-users

The audit team engaged the firm's forensic specialists to identify unusual super-user activity. The specialists determined additional procedures that the audit team performed to address the risks associated with the unlimited super-user access to the accounting system.

Recognition and measurement of uncertain tax positions

There was good integration of tax specialists in the group audit team. This enhanced the level of challenge around the tax provisions and the implementation of changes in accounting treatment. The testing threshold adopted for tax uncertainties ensured that appropriate consideration was given to this area.

Use of actuarial specialists for the valuation of insurance contract liabilities

The audit team engaged actuarial specialists to assist in the audit of the insurance contract liabilities. The actuaries evidenced clearly the areas in which they relied on work performed by the core audit team. These included matters such as confirming the appropriateness of the expense assumption, the completeness and accuracy of data used in actuarial modelling and the review of new reinsurance agreements. On each of these matters, the audit team provided responses and references to where the work was recorded. This contributed to a well-integrated and co-ordinated audit of the insurance contract liabilities.

Allowance for Expected Credit Losses (ECL)

The audit team used their own credit modelling specialists to independently recode elements of the ECL models where a non-standard assumption had been used by the entity. This provided robust assurance over the accuracy of the ECL calculation.

Involvement of valuation experts

There was appropriate involvement of valuation experts in relation to X, including good evidence of discussions with and challenge of management's valuation experts.

Execution – Group oversight

Group audit team oversight

The group audit team's evidence of its involvement in and oversight of the X and Y component auditors was of a high standard, in particular:

- Detailed evidence of the review of component auditors' working papers and the group audit team's site visits; and
- Robust and informed challenge of management's expert in relation to the audit of rental fee claims.

Prepaid revenue

The group audit team's oversight of, and involvement in, the component auditor's work over prepaid revenue was of a good standard. In particular, the group audit team:

- Attended walkthroughs of the financial process with the local component auditor and management; and
- Reperformed procedures at a group level that assessed the design and implementation of controls.

Understanding of control processes

The group audit team ensured effective coaching, discussion and challenge for all audit team members in relation to their assigned area of the control process. They were asked to present to, and take questions from, a panel of experienced partners in order to demonstrate their understanding of the group's control processes.

Analytical procedures

The group audit team utilised a service centre to perform analytical procedures over components in scope in non-significant risk areas. The group audit team's supervision, coaching and training of the service centre team enhanced their ability to challenge management and take appropriate action if variances were identified.

Challenge of component auditors

The group audit team prepared a tracking document to evidence issues raised with the component audit team arising from its review of their working papers, the responses received and how matters had been resolved. This demonstrated effective oversight and challenge of the component auditors.

Group instructions

The group audit team sent the component auditors detailed tailored testing templates to complete. These focused on all the risks that were considered relevant to the group audit.

Engagement with management's expert

The group audit team held a call with management's expert to discuss the ABC reserves and resources report. The call assisted the group audit team in assessing the independence, competence, and objectivity of management's expert. It also allowed the group team to gain a better understanding of the key inputs in the reserves and resources report, which assisted their challenge of the audit procedures performed by the component auditor.

Engagement with component auditors

The group audit team's oversight of and involvement with component auditors was of a high standard, including:

- A three-day conference to brief partners and managers from all component audit teams on the group audit approach.
- Clear mapping of IT systems, responsibilities and recording of scope changes, risk-based assessment of tools and evidence of review.
- The attendance of the group engagement partner at a component Audit Committee closing meeting with the component auditor.
- A high degree of involvement with component audit teams, including detailed reviews of their work papers. This included evidence of the group audit team's calls and meetings with component teams, the challenges they raised and how they were acted upon and resolved.
- Multiple planning and risk assessment meetings and site visits.
- A careful analysis of areas of possible concern.
- Evidence of the challenge of key audit matters.
- Holding calls with the component auditors for a sample of non-significant components.
- In response to the outbreak of Covid-19 (which prevented the group audit team from visiting ABC to inspect the work of the local component audit team as planned), holding additional conference calls with the component audit team and requiring additional reporting from them.
- The group actuarial partner performing a benchmarking exercise to help inform challenges raised.
- The comprehensive nature of the group audit instructions.
- The use of a tracker to record details of calls and meetings with the component audit teams.

- Comprehensive minutes of the calls/ meetings the EQCR held with each Key Audit Partner.
- The review of certain key audit working papers.
- Good evidence of oversight and challenge of the component audit teams' work in relation to IT controls and tax balances.

Revenue and margin recognition for fixed-price contracts

The group audit team was actively involved in the audit of unapproved contract variations and liquidated damages for a component; this included reviewing the accuracy of prior period estimates and meeting directly with local management to discuss the findings.

The execution and documentation of these procedures helped demonstrate the group team's involvement and the exercise of scepticism and challenge.

Impairment of intangible assets and goodwill

The group audit team requested component auditors to complete detailed templates in relation to the audit of component cash flow forecasts used in the impairment models. This facilitated challenge of the key assumptions used in the cashflow forecasts.

Execution – Consultation and oversight

Going concern

- The audit team consulted with an internal technical panel as part of its work on going concern. The challenge and discussions arising from the panel led to the audit team performing additional sensitivity analyses over post-year end performance for certain parts of the business.
- We found the procedures over going concern to be extensive and of good quality. The audit team requested a technical panel to consider the going concern conclusion, going beyond the requirements of the firm's policies and procedures.
- The audit team clearly considered the risks relating to the group's going concern status and long-term viability, which resulted in a well-reasoned audit response. Of particular note were:
    - The involvement of a restructuring specialist to assist with the evaluation of the cashflow forecast and the new banking arrangements.
    - The comparison of the audit findings with those of the reporting accountant engaged by management in connection with the forthcoming fund raising.
    - The use of a technical panel, including restructuring and other partners, to challenge the audit team's going concern assessment.
- The audit team's engagement with the firm's technical panel was of a high standard and demonstrated robust two-way challenge. The audit report clearly communicated the nature of, and basis for, the material uncertainty arising.

Residual value of used cars

The audit team's work over the significant risk relating to the residual value of used cars was of a high standard. This included challenge of management's estimate, consultation with the firm's technical team and taking steps to narrow the range of reasonable estimates as far as possible.

Inventory

The audit team's approach to testing inventory existence was robust, despite the challenges relating to Covid-19 and a first-year audit. Senior members of the audit team, including the engagement partner, attended post year-end inventory stocktakes covering all locations.

EQCR involvement and challenge

The involvement of the EQCR was of a high standard. For example, the evidence of the EQCR's discussions with and challenge of the Key Audit Partners and other members of the audit team was extensive.

Execution – Other

Going concern

We found the following aspects of the going concern work to be of a good standard:

- The memorandum summarising the audit work performed, and the conclusions drawn, which was well-constructed and presented.
- The assessment of management's historical budgeting accuracy.
- The use of Computer Aided Audit Techniques to check the integrity of the going concern cashflow model.
- The communication to the Audit Committee regarding the implementation of ISA 570 (revised), which would be applicable in the following year.
- The evaluation of management's downside scenarios, which considered how the business's risks were reflected and impacted by the Covid-19 pandemic.

Revenue recognition – Effective Interest Rate (EIR) accounting

The overall audit approach to EIR, including the comprehensive nature of audit procedures performed and the underlying support for the audit team's conclusions, was of a good standard. Specific examples were the effective assessment of Early Redemption Charges and the independent rebuilding of EIR models.

Service organisations

- The audit team reviewed the relevant external auditors' reports on service organisation controls and evidenced careful consideration of the issues that applied to the entity. One of the external auditors' reports was qualified. The audit team evaluated the applicability of this qualification to the entity and liaised with the managing agent as necessary.

  The audit team's extensive work in these areas supported its other audit procedures and provided assurance of the completeness and accuracy of the processing of premiums and claims.
- To address the non-coterminous dates of certain control reports, the audit team tailored its testing to address the risk of controls not operating effectively at the service organisations.
- The audit team's risk assessment, audit procedures and basis for conclusions regarding third-party service organisations were clearly set out. This allowed them to demonstrate clear challenge and linkage within each area relating to the appropriateness of the nature and extent of procedures performed.

Estimation of accrued revenue

We considered the bespoke data analytics performed over unbilled revenue in the X component to be a robust means of providing assurance over the judgmental elements of this revenue stream. In particular, the independent script developed enabled verification of the accuracy of management's unbilled revenue calculations across all individual accounts.

Revenue to cash reconciliation

The group audit team performed comprehensive cash to revenue reconciliation testing. The third-party evidence was supplemented by extensive corroboration of reconciling items. In view of the nature of the group's revenue (being high volume, low value transactions), this proof in total test allowed the audit team to gain assurance over the accuracy and completeness of revenue in an efficient and effective way.

Expected Credit Loss (ECL) modelling

The extent of underlying evidence obtained to support the conclusions reached in relation to ECL provisioning demonstrated a good understanding of the issues impacting this area of the audit. The firm's approach to the review of model code and the independent model rebuilding approach was of a high quality.

IFRS 9 – Overall approach

The overall audit approach to IFRS 9, including the comprehensive nature of audit procedures performed and the underlying support for the audit team's conclusions, was of a good standard. Specific examples included the substantive work performed around identifying and testing Significant Increase in Credit Risk, and the comprehensive and effective use of data tools.

Revenue and debtors

- The testing of the integrity of management's unbilled revenue calculation, using computer-aided audit tools, was performed to a good standard. In addition, the audit team performed effective scenario testing on bad debts for billed and unbilled debtors to calculate an independent range for the bad debt provision.
- The audit team obtained direct confirmations from customers to verify that revenue for major contracts for the first ten months of the year had been appropriately recognised (achieving 50% coverage of total revenue).
- The revenue analytical testing approach, work performed and review thereof was clearly evidenced.
- The audit team demonstrated a good understanding of the entity's transaction process which enabled them to perform a detailed and focused revenue data analytic procedure.

IT controls testing

Where the group audit team relied on controls testing performed by management's compliance team, they identified each of the control attributes and underlying reports to be tested and evidenced whether management's approach had sufficiently covered them.

Defined benefit pension liability

The audit team undertook well-evidenced work in response to action points raised by the firm's valuation team on the valuation of the pension liability, including work on membership data profile changes and mortality and salary increase assumptions.

Revenue recognition

The audit team obtained a good and clear understanding of the X element of contracts and challenged the appropriateness of revenue recognised in accordance with IFRS 15.

Inventory

The use of substantive analytical review in the audit of stock provisions enabled efficient audit work focused on those provisions which were not consistent with the audit team's expectations.

Use of Audit Data Analytics

Audit Data Analytics were used in the audit of revenue and journals. This enabled a targeted audit response to the risks in these areas.

Consideration of key audit matters

In key areas of audit focus, including those where management exercised significant judgment, the audit team's working papers clearly set out:

- The work undertaken;
- Management's key judgments;
- How these were challenged; and
- The basis for the overall audit conclusions reached.

Impact of Covid-19

In addition to considering the impact of Covid-19 as a non-adjusting subsequent event, the audit team assessed its potential impact on the impairment charges recognised. The Annual Report and Accounts disclosed these potential impacts.

Financial investments

The audit team identified the valuation of Level 3 financial investments as a significant risk. They clearly explained how they addressed the valuation risk for each different category of financial investment in each component, noting where the audit testing could be found.

Bank settlement and clearing accounts

The audit team's approach of testing the configuration of all matching rules across all of the settlement and clearing processes, rather than testing only a sample, increased the assurance obtained over the automated reconciliations supporting the key payment processes.

Deferred tax assets

The audit team demonstrated a detailed understanding of forecast profits and cash flows; and robust challenge of management's approach in developing forecasts to support deferred tax assets.

The audit team performed lookback testing over more than one year to consider how forecasts had changed over time; and independently verified a sample of the third-party forecasts of long-term foreign exchange rates used by management.

Goodwill impairment

- Management's impairment model showed that goodwill was not impaired. The audit team identified, considered and were able to explain why potentially contrary evidence, that the calculated recoverable value appeared to exceed the market capitalisation of the company, did not undermine management's conclusion.
- There was good testing of management's forecasting process by assessing a four-year period of past results and investigating unusual/material variances identified.

Impairment reviews – use of benchmarking

There was good use of benchmarking data when assessing management's short and long-term growth assumptions for impairment reviews.

Completion and reporting

Communications with the Audit Committee

The use of graphics in the reports to the Audit Committee, notably in relation to going concern, future price assumptions, and the valuation of Exploration & Evaluation assets, aided the communication of complex issues which required the exercise of significant judgement. In addition to providing a clear bridge between the audit findings and the audit report, this promoted effective two-way communication with the Audit Committee.

Quality control procedures

Effective engagement quality control procedures, appropriate to both the complexity of the business and associated inherent risk, were demonstrated in all areas reviewed. The audit team evidenced their risk assessment and audit responses to the significant risks identified in a clear and concise manner.

Engagement Quality Control Reviewer (EQCR)

There was clear evidence of the EQCR's involvement throughout the audit process, including briefing and update calls held between the EQCR and senior members of the Group and Divisional audit teams.

Resignation statement

On resignation as auditor, the firm's statement of circumstances provided appropriate transparency of the overall reasons for its resignation.

Correction of identified errors

The audit team identified a significant number of material errors in various areas of the financial statements. They asked management to correct these errors and perform or re-perform certain key assessments, resulting in a significant delay in issuing the audit opinion.

Review of the financial statements

The detailed documentation supporting the review of the financial statements by all members of the audit team, including the partner and EQCR, clearly demonstrated the extent of their review and how review points arising were resolved.

Other information in the annual report

The audit team prepared a comprehensive work paper for disclosures in the front end of the annual report, annotated with testing performed by them and/or referenced to supporting evidence.

Delaying the signing of the auditor's report

- The audit partner delayed signing the auditor's report until certain audit evidence was obtained. Furthermore, there was robust reporting to the Audit Committee in relation to difficulties encountered during the audit.
- The audit partner delayed signing the auditor's report until certain audit evidence was obtained from management and evaluated by the audit team.
- The audit team consulted within the firm on judgements around the rental transaction. The audit partner delayed signing the auditor's report until all matters raised in the consultation process had been satisfactorily resolved.

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