

FRC Brief - 2019

Audit Quality Inspection of Grant Thornton UK LLP by the Financial Reporting Council (audit quality)

The paragraph discusses the annual audit quality inspection of Grant Thornton UK LLP conducted by the Financial Reporting Council (FRC), highlighting both positive improvements and areas requiring urgent improvement. The primary focus is on further enhancing audit quality in response to the identified deficiencies. The key findings released by the FRC do not showcase the expected level of improvement in audit quality, with some audits not meeting the targeted quality standards. In response, the firm has taken measures including senior management changes, increased investment in personnel, technology and training, and the establishment of a new audit quality board and academy. The report emphasizes the need for comprehensive root cause analysis to uncover the underpinnings of the inconsistencies in audit quality. The firm is also carrying out a full review of its audit operations, engagement leads, personnel, and audit engagements. Future measures include stricter quality grading for managers and higher emphasis on audit quality for new hires at the senior level.

Audit of Going Concern: Areas of Improvement Identified and Proposed Actions (going concern)

The examination and evaluation of the appropriateness of the going concern assumption are quintessential for the fair presentation of financial statements. Management's cash flow forecasting models form an integral part of this assumption and should be robustly scrutinised by auditors. Issues have emerged in this area such as insufficient procedural support for management's going concern assessment, lack of consideration to include a 'material uncertainty related to going concern' paragraph in auditors' reports, and lack of documented evidence in potential doubt over going concern and viability assessment. To address this, root cause analysis identified project management and technical skills in audit of going concern as key areas needing improvement. A new audit methodology is proposed to allocate going concern work at execution stage for more robust challenge of management's models. An increased focus on technical skills, with dedicated training and case studies, is also planned. Steps to introduce a obligatory workpaper for going concern, plus additional risk identification procedures for complex cases, are also proposed. To evaluate the effectiveness of these actions, work related to going concern will be part of the internal quality monitoring moving forward.

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