

5th December 2022

Dear Accounting Officer,

Changes to audit approach for the 2022-23 audit cycle

I am writing to inform you that the way in which we plan and conduct our audits is changing for our 2022-23 audit cycle.

There are significant changes to International Standards on Auditing (UK) (ISAs) with the introduction of ISA 315 (Revised July 2020) *Identifying and Assessing the Risks of Material Misstatement*. The revised standard will have far-reaching impacts on how auditors undertake audit risk assessments and therefore on the overall audit. It is expected that audits – particularly in the first year of implementation (2022-23 audits) – will require us to use an enhanced skills mix to consider the higher level of judgement necessitated by the standard. The revised standard requires us to undertake more detailed and extensive risk assessment procedures to identify risks of material misstatement. The subsequent design and performance of our audit approaches will be responsive to each assessed risk.

This is likely to result in a greater number of inquiries with your finance team and others in your organisation at the planning stages of the audit. The revised standard also requires engagement teams to have an enhanced understanding of the IT environment and applications relevant to financial reporting.

As a result of the changes, it is anticipated that our audits will require more time and a richer skill mix to perform the more extensive risk assessment procedures. Unfortunately our initial assessment is this will result in increased audit fees which we are estimating will be in the region of between 10% and 20%. This is consistent with the expectations of other UK public audit organisations and private sector audit firms.

We recognise the concern that this increase will cause but the new standards inevitably mean higher costs. We will continue to do everything that we can to keep costs down while ensuring that our audits remain of high quality to meet rigorous standards. After the first year of implementation, we will review our audit fees to ensure they remain appropriate. Our Engagement Directors will discuss the practical implications with you and those charged with governance.

We look forward to continuing to work in partnership with you and your colleagues as we identify, assess and address risks of material misstatement, obtain authoritative assurances, and independently report the results of our financial audit work.

I would be grateful if the attached briefing could be tabled at the next meeting of your Audit and Risk Assurance Committee where our engagement director or another appropriate NIAO representative will be happy to discuss the key changes.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rodney Allen', written in a cursive style.

Rodney Allen
Chief Operating Officer