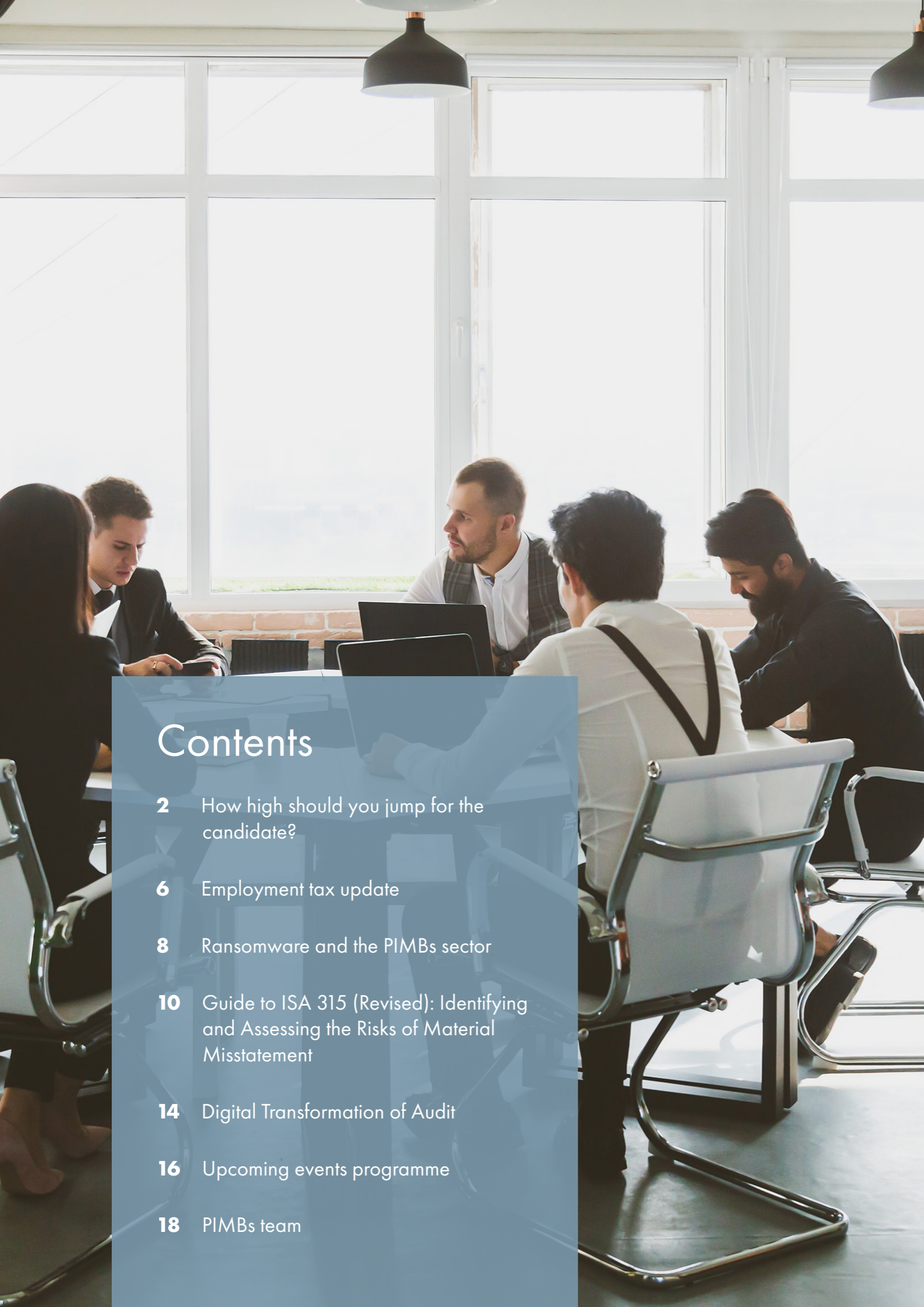




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PIMBS BRIEFING

WINTER 2023



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From the editor

Welcome to the Winter 2023 edition of our briefing for Professional Institutes and Membership Bodies (PIMBs).

While many may be happy to see the back of the last few years, 2023 has started with a number of challenges for the membership sector. From inflation and the cost of living challenges, to members' assessment of value and staff recruitment and retention, the current year will see the need for increased strategic and financial planning to ensure membership organisations remain relevant, as well as sustainable.

To tackle the issues relating to recruitment, David Sneesby, CEO, [The LSL Group](#), provides an insight into the current recruitment market and the implications of candidate expectations.

Nick Bustin, Employment Tax Director, provides his latest thoughts on employment tax matters considering IR35 and employment status. There is also a reminder on how pension salary exchange can be used to see a small increase in 'take home' pay.

Cyber attacks remain on most organisations, risk registers and in this edition of the briefing, Simon Bulleyment, Director, [Sibrossa Ltd](#), considers ransomware and its implications for the sector.

Our final two articles are focused on the changes and challenges within the audit sector and its increased regulation with Tom Stock, Technical Director, providing an update on the impact of ISA315 on audits, while Emma Gabe, Senior Audit Manager, considers the digital transformation of audit.

My thanks to those who contributed articles and insights to this publication. We look forward to seeing you, in person or virtually, at [upcoming events](#) throughout 2023 and as ever, the haysmacintyre team will be happy to discuss any issues with you.



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How high should you jump for the candidate?

“I would love to join your organisation, and these are my terms...”

Employers are already experiencing this in their efforts to secure top talent and things are unlikely to change for some time. Exceptional C-Suite candidates are always in high demand but now they can call the shots.

Candidate expectations and implications

In reality this means that candidates can command salary levels that may well exceed the top of the range originally envisaged to attract and secure the required talent. But it doesn't stop there. Candidates will be expecting flexibility around working practices, particularly the extent to which the hiring organisation will accommodate hybrid working. What is considered to be feasible in terms of the candidate's home location will also be part of a wider discussion.

Accommodating flexibility around working practices opens up exciting opportunities for a more inclusive and diverse workforce to be achieved. Flexible working facilitates employment choices for several groups, for example people with disabilities, who may have found a five day attendance at the office practically difficult or impossible. It will certainly broaden the pool of candidates that can be considered for a role. However, organisations are still navigating the post-pandemic world and trying to balance the existing contractual, cultural and behavioural norms of their workplace and people with the demand and expectations of new arrivals.

This scenario is exacerbated in the context of executive search where candidates are not actively looking to change organisations. The deal on offer at a potential new employer must at least match the softer benefits that they are already used to at their current employer, in particular the flexibility of working practices. Indeed, it is quite likely that the senior leader approached through the executive search will have played a part in discussing and even setting the new working practices at their current employer.

In a recent survey of 10,000 full-time employees across the UK, France, Germany and the Netherlands by the global HR and payroll firm Remote, more than three-quarters (77%) of those surveyed think that flexible working is the most important benefit when considering a job move.

We are all aware of the discussions about whether it is any longer important for senior leaders and their team members to live within a 'local' geographic proximity to their head office. There is little dispute that physically meeting each other brings a different level of richness to a gathering and allows for important social interaction and the rebuilding of the organisation's 'social capital'. The question is about what this looks like in practice and how best to achieve it, whilst maintaining flexibility. In this context, the correct position for the hiring organisation to take regarding a potential new employee who may live outside of a daily commutable distance from the head office but, for example, would be happy to attend a maximum of twice each week. It seems important that the hiring organisation should have considered the rationale for their decision, whatever it is, and be able to articulate this credibly, not just for potential new employees but for the existing team members as well who may not have been afforded the same terms.

This is not easy. There is no standard way of working and there are few established benchmarks to help inform decisions due to the recency of this new paradigm, and therefore so much is subjective and anecdotal. Organisations may choose an example that best fits their own perspective and there are plenty available from the 'all in' demands of Goldman Sachs CEO David Solomon to the 'work from anywhere in the world' stance of Airbnb CEO Brian Chesky and Deloitte's Chief Executive Richard Houston. Microsoft CEO Satya Nadella wrote that "hybrid work represents the biggest shift to how we work in our generation—and it'll require a new operating model, spanning people, places, and processes."

Regarding remuneration pressures, we are all acutely aware of the impact of the current inflation levels on salary increase expectations and demands, in a number of cases leading to disruptive strike action.

The perfect storm

Three external factors have aligned to create a uniquely challenging recruitment ecosystem:

1. Post-pandemic working expectations
2. Exceptional inflation levels
3. High employment levels

Originally initiated as a virus-led imposed requirement to work from home, the subsequent return to work post-pandemic has been chaotic. It has not been a straight-forward return to the past or 'getting back to normal' but a complete redefining of the fundamentals of the relationships between employer and employee and a power balance shift unseen since the era of Henry Ford. This is both challenging but also invigorating in the options that can now be considered.

Inflation running at double digits is at its highest level in 40 years. The demands for salaries to keep pace is driving parallel wage inflation. This impacts not only the recruitment of new employees but also has implications for the existing employees. Therefore, directly affecting employee acquisition and retention.

The UK has been experiencing exceptionally low unemployment levels not seen since the early 1970's. In December 2022, the ONS reported this at 3.7%. UK economists consider there to be full employment when unemployment levels are circa 4%. Running at effectively full employment creates a supply and demand challenge with organisations struggling to attract and secure high calibre employees. This is no less the case at senior levels where it is not unusual for a single executive search candidate to be courted by more than one organisation at the same time. Those more proactive candidates responding to advertised positions will often have their hats in several rings at the same time. So, the competition for top talent increases further and with it the speed of reaction of hiring organisations must also increase. Decisive action to engage with and secure good candidates quickly is paramount, otherwise another organisation will benefit.

This perfect storm plays directly into the hands of candidates and employees. The implication is for candidates and employees to demand and expect more from their current and future employers and for those employers to respond in a timely and meaningful way. The opportunity is not only to react with agility and decision but also to review and adapt proactively. Speed, flexibility and agility will reap rewards and become a key differentiator.

Can this circle be squared?

How then, can the hiring organisation square the demands made by an 'outsider' with their current structures? On the one hand not bringing on board the exceptional leadership talent needed to drive the organisation forward is likely to significantly compromise the business both in the short term and long term. On the other hand, the complications and repercussions of meeting the exceptional demands of the new leader ('exceptional' in the eyes of the hiring organisation, but quite possibly not exceptional elsewhere) will almost certainly be destabilising to the current status quo relating to people, places and processes. Consistency and fairness are highly regarded.

The recruitment of a senior team member from outside the organisation can, and often does, require the hiring organisation to reflect. Just because the senior leaders are currently remunerated at a certain level, doesn't necessarily make that is the correct level. Just because, historically, employees have physically worked in the office five days every week, doesn't necessarily make that the right or the most productive route.

Being open to challenge and fresh thinking is invaluable and if the recruitment process acts as a catalyst in this then that is also useful.

Often, as experienced executive search consultants in the sector, we are asked to provide guidance on the market and to give a steer on appropriate remuneration levels. It may be, at this stage, that it becomes clear that the organisation is out of step with the market in terms of the current salaries or working practices. This has wider implications. Not only will the organisation struggle to recruit top talent but may also be unable to retain the talent inside the organisation.

Creative options are emerging such as meeting a resource need with a time-limited interim or project solution rather than making a permanent hire. Organisations are also restructuring to bring about efficiencies rather than necessarily replacing on a like for like basis. Others are exploring part-time options, for example, in employing a new leader on a four day per week basis. If the base salary is a constraint, considering whether the role could be performed effectively in 80% of the time for the salary available could be a useful option. A candidate normally seeking £150,000 may be prepared to work for four days for £120,000 which may be the top end of the salary budget available to the organisation. The organisation then benefits from a top-quality candidate they would otherwise be unable to afford or attract. Clearly in this fast-evolving and challenging time the wider organisation needs to be considered in adopting this type of solution.

Thoughts for recruitment in the current market

The first point is for the hiring organisation to enter into the recruitment process with an open mind and not to fall into the trap of assuming what is done now should necessarily continue to be done. The world has moved rapidly over the past three years and much has changed. Being open to challenge enables deeper thinking, curiosity and creativity as to how best to achieve successful outcomes.

Transparency, openness and honesty are all important in recruitment.

What may seem to be intractable differences between the hiring organisation and the desired candidate, through openness and a genuine effort to understand each other's position, it may be possible to craft a solution.

What is important at the outset of the recruitment process is clarity. Being able to articulate the organisation's position to each candidate with a clear and understandable rationale is key.

To be able to do this the hiring organisation and executive search consultant should be discussing the following at the outset of the planning phase:

- Salary – are the current senior team member salaries in the organisation competitive in the market?
 - What is the appropriate base salary to attract and retain the new leader?
 - What should the salary range be?
 - What variable remuneration elements (e.g. bonus) and benefits should be included?
- Geographical location – what is and is not considered to be acceptable in terms of the future employee's location for them to be effective in the role, and why?
- Working arrangement – what are the feasible options for delivering the role, and why?
 - What does hybrid working look like to the organisation?
 - What are the expectations for working from home?
 - What is non-negotiable?

In turn, discussing these basic but key areas with candidates will enable an objective assessment against the above criteria and a decision taken as to whether they can and should be considered. The interview can then focus on exploring the candidate's experience, achievements, skills and cultural fit. An open dialogue between the hiring organisation and the executive search consultant throughout the recruitment process will enable discussions to take place regarding specific candidates and to explore what might be feasible for both parties.

In summary:

- Question whether what is done now should be done in the future.
- Take advantage of the global reset to review and adapt. Use the recruitment process as another opportunity to reflect and challenge the status quo and consider making wider changes in the organisation if required.
- Consider alternative options for delivering a remit.
- Gain an understanding of the mood of the current external market for recruitment in the sector.
- Discuss with the executive search consultant the rationale for the organisation's positions on salary and benefits, candidate location and working arrangements.
- Clarify and agree the hiring parameters and what is non-negotiable for candidate selection. Be realistic in this process.
- Maintain a regular and ongoing dialogue with the executive consultant throughout the process and be open to flexibility around candidate requirements where possible.

For further information, or if you would like to discuss any of the areas covered in this piece, please contact David Sneesby.



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About The LSL Group

The LSL Group is the only specialist firm providing Executive Search and Executive Coaching to the Professional Institutions & Membership Bodies sector.



Employment tax update

Where are we on the IR35 rules?

The turbulence created by the announcements made during Liz Truss' ill-fated time as Prime Minister especially concerning the decision to repeal the changes to the IR35 legislation came as a major, unexpected surprise.

However, following the appointment of Jeremy Hunt as the Chancellor, the repeal has been reversed, but it has left many confused. This article attempts to provide clarity and at the same time make some suggestions on what professional institutes and membership bodies should be thinking about as we head towards the later stages of the 2022/23 tax year.

What is IR35?

The IR35 legislation, which was first introduced in April 2000, was an attempt to reduce the loss of income tax and NI for contractors who provided their services via an intermediary – typically a personal service company (PSC). HMRC always felt that the level of compliance was very low, as the responsibility for considering the application of the legislation fell upon the contractor. Furthermore, challenging the status of contractors was, in HMRC's view, highly time-consuming and expensive for all parties, as cases were often referred to the tax tribunal to consider.

The changes, which came into effect in both 2017 (public sector) and 2021 (private sector) saw the introduction of the Off-Payroll Worker (OPW) legislation, with the shift of responsibility for implementing the legislation move away from the contractor and over to the engager, such as a school. The adoption of the OPW legislation in the private sector changes was delayed by a year, as part of the Government's response to assisting businesses during the pandemic. Furthermore, HMRC applied a 'light-touch' for the first 12 months after the private sector legislation came into effect.

Many organisations took the opportunity to review their existing arrangements and introduced processes to help with the decision-making procedures required to be in place. Some of the changes which were introduced included:

- Centralising who has oversight of the contracts
- Undertaking reviews of the contracts
- Issuing status determination statements
- Putting in place a dispute resolution process

If an organisation has not yet put any procedures in place, this is something which should be strongly considered to help mitigate any potential challenges from HMRC, or from the worker themselves. We are expecting to see an increase in HMRC activity during 2023, and it is important that organisations regularly review their OPW and wider contractor arrangements on a regular basis.

HMRC has a wide range of anti-avoidance measures at its disposal, which it is expected to use post-April 2023 in order to attack any perceived non-compliance in the supply chain. Organisations will also be required to retain copies of the decisions for up to six years in case of any HMRC enquiries.

Employment status

Generally speaking, the more significant challenge is where any engagements are with the individual directly – as opposed to, for example, any PSC they may operate through. The question of employment status has always been present and will remain unaffected by recent developments.

There is no statutory definition as to what constitutes 'employment' or 'self-employment' for Income Tax or National Insurance (NI) purposes. As such, it is necessary to take guidance from case law – provided by both tax and employment tribunals – which in turn has helped to identify several key characteristics to be considered when determining whether a worker is considered employed or self-employed.

In the absence of any statutory guidance, to help differentiate between an employee and someone who is self-employed, the Courts have directed that all the facts of an engagement need to be ascertained, and a holistic overview taken to determine the correct and true position.

The Income Tax and NI treatment for workers who are either employed or self-employed can prove significant in terms of:

- The date when the tax is due for payment
- The class of NI due for payment
- The nature of tax-deductible expenses which can be claimed. For example, for someone who is self-employed the expenditure must be incurred 'wholly and exclusively' in the performance of the trade; whereas for an employee the expense must be incurred 'wholly, exclusively and necessarily in the performance of the duties of the employment'.

As well as the difference in the Income Tax and NI treatment, the organisation has the responsibility to ensure that, where appropriate, all workers who are deemed to be employees should be put on to the payroll. Failure to do so could expose the organisation to paying any additional tax and NI, as well as being exposed to interest and penalty charges. There may also be reputational risk associated with any non-compliance.

All of the facts relating to the engagement need to be carefully considered and an overall picture obtained before a decision is reached, which will typically include, but not be limited to:

- The measure of control over how the work is undertaken by the individual
- The provision of equipment
- The length of engagement
- The right to provide a substitute
- The extent of any financial risk the contractor will be exposed to

Once all of the facts have been established, it will then be necessary to consider whether the contractor leans more towards employment or self-employment. In cases where there is a lack of clarity, the use of the HMRC Check Employment Status for Tax Tool (CEST) or seeking professional guidance will help organisations to reach a sensible decision. However, the obligation to correctly determine the tax status of any worker sits with the school as the engager, and not the contractor who is providing the services.

The Courts have also considered the question of the terms of an engagement.

Whilst a contract may stipulate, for example, that a substitute can be provided, HMRC will want to understand the working reality of any such arrangement. Where the facts of any engagement vary from those of the contract, then the facts will take priority.

It is recommended contracts should ideally be reviewed before any work is undertaken, and certainly before any payments are made.

National Insurance changes

A further widely-publicised change was the 'reversal' of the increase to the National Insurance rates, which saw both employees and organisations paying an additional 1.25% from 6 April 2022. The change came into effect from 6 November 2022, but it will not be backdated.

Additionally, the proposed introduction of the Health and Social Care Levy will be repealed.

Form P11D Class 1A NI and PAYE settlement agreements

As a consequence of the various changes to the NI rates, a separate 'blended' rate of 14.53% will apply to Class 1A NI due on Form P11D benefits and PAYE settlement agreements for the 2022/23 calculations. For payrolling benefit purposes and termination payments over £30,000, the rate from 6 November 2022 reverted back to 13.8%.

Pension salary exchange

Whilst the state of the economy is very much front of mind for many, organisations may want to consider introducing pension salary exchange for those employees who are operating defined contribution schemes – if they have not already done so.

The use of pension salary exchange, which remains one of the few 'favoured' arrangements which can be provided in conjunction with a salary exchange, can help to provide additional pension savings for employees. Furthermore, there is the possibility for the employee to see a small additional increase in their 'take home' pay without this having an impact on the organisations costs.



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SECURITY

Ransomware and the PIMBs sector

Ask anybody in charge of IT security the question “what is your biggest concern?” and either at the top of their list, or very close to it, will be ransomware. It has been around for many years and gained prominence in 2017 with the WannaCry outbreak – a global attack that exploited a vulnerability in Microsoft Windows. It resulted in significant impact to countless organisations and according to NHS England, affected 80 of its 236 trusts (either due to ransomware infection or IT teams proactively switching off devices).

Almost all organisations are at risk from ransomware. In Sophos’ ‘State of Ransomware in 2022’ report, out of 5,600 mid-sized organisations across 31 countries that were interviewed, 66% had been the victim of ransomware in 2021. Professional institutes and memberships bodies will often hold thousands of sensitive records relating to members, so there is much to lose if attackers gain access to or renders them unusable.

Ransomware usually finds its way into networks via social engineering techniques, which dupe staff into opening infected email attachments or links...there will be very few organisations not regularly receiving suspicious emails! However, attackers will also try other means, such as guessing/cracking passwords and logging in via remote access systems or exploiting vulnerabilities in externally facing servers.

Whilst there is yet to be a follow-up on the same scale as WannaCry, ransomware and the attackers behind it are constantly evolving. When ransomware first became an issue, it generally required expert knowledge and sophisticated techniques to launch an attack. Shortly after the WannaCry outbreak, the UK’s cyber security advisory body, National Cyber Security Centre (NCSC), attributed it as the work of ‘state actors’.

Ransomware as a Service (RaaS) is a relatively new concept, in which developers of ransomware tools hire them out to less sophisticated attackers, with both parties taking a share of any ransom payments. Some of these organisations have a surprising amount of structure to them, with HR, recruitment, comms teams, and the provision of technical support services to those hiring their tools.

However, the most worrying change to ransomware has been the use of double extortion techniques. Previously, if an organisation became a victim of an attack, as long as there was an effective backup strategy in place, the ransom note could be ignored, data restored, and operations continued. However, many attacks now incorporate an initial phase of copying victim’s data to an external location prior to it being encrypted (referred to as ‘data exfiltration’). The ransom note will then demand payment not only to recover data, but also to ensure it is not released to the public. Organisations will be alarmed at the thought of sensitive member data being leaked on the Internet, with the reputational, financial, and regulatory risks being significant.

Whilst being attacked might seem like an inevitability to some, there are ways of minimising the risk. Generally, when attacks are successful, it involves multiple process, human or technical control failures – it is rare for only one thing to have gone wrong.

At the top of the list should be ensuring that IT teams have put appropriate controls in place, they are working effectively and, as important, are tested on a regular basis. NCSC provides excellent [guidance](#) for senior management and board members, explaining what ransomware is and the types of questions to be raising with their IT teams.

They also provide practical resources, help and cyber security training content for small and medium sized organisations, available [here](#).

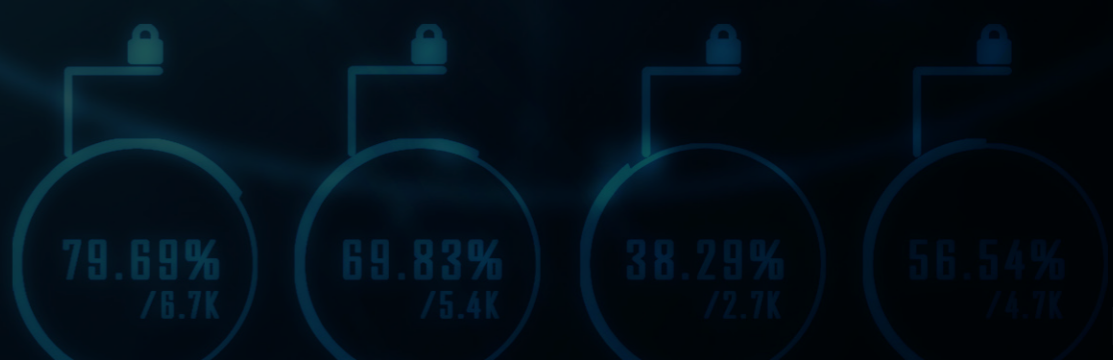
Another area for consideration is implementing a security framework, such as the government backed Cyber Essentials (CE) and Cyber Essentials Plus certification – a prescriptive set of controls designed to protect organisations from the most common form of cyber-attacks. CE is also a great way of demonstrating to members that cyber security is taken seriously – you can find out more [here](#).

Cyber insurance policies with ransomware cover can be useful in the event of an attack, and historically insurers have generally paid out when required. However, with the ongoing rise in the number of attacks, premiums are increasing, restrictions on cover are being applied and insurers are demanding that organisations have effective security controls in place.

Cyber security improvement should be an embedded process within all organisations and risk assessments should be kept updated to deal with ransomware and other cyber threats. A plan should then be created to prioritise the implementation and improvement of controls and to coordinate associated spend.



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Guide to ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement

In July 2020 the Financial Reporting Council (FRC) published extensive revisions to the International Standard on Auditing (ISA) (UK) 315: Identifying and Assessing the Risks of Material Misstatement.

The revisions are effective for audits of financial statements for periods beginning on or after 15 December 2021. The changes were made by the International Auditing and Assurance Standards Board (IAASB) and adopted by the FRC in its UK version of the standard to address concerns about audit quality. The FRC consider the new standard to improve significantly on the old version, and that the revised standard is better designed to “meet the challenges of an evolving business environment and the needs of users and protect the public interest.”

Changes for auditors

The revisions are comprehensive and require auditors to significantly revise their audit approach through the expansion and strengthening of requirements that determine the scope and content of the mandatory audit risk assessments, which drive the design, scope and scale of the detailed audit work.

In summary, the main areas of the revisions are:

1. The introduction of five new inherent risk factors to aid the audit risk assessment: subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud
2. The introduction of the concept of a spectrum of risk, at the higher end of which lie significant inherent risks
3. The requirement for auditors to assess inherent and control risks separately rather than a combined assessment as currently allowed. These changes to audit risk assessment processes are designed to drive a more thorough understanding of the risks faced by an entity and consequently a more appropriate risk assessment and tailored audit work.
4. The requirement for auditors to obtain a far deeper and wider understanding of the audited entity’s IT environment and controls, particularly IT general controls. The need for this understanding is in part a response to the ‘evolving business environment’ identified by the FRC refer to in the quote in the introduction above.
5. A requirement for auditors to understand and document more about the systems and controls relevant to the audit and on the design and implementation work required for these controls
6. A requirement to distinguish between direct and indirect control components
7. As with recent revisions to other ISA’s there is an increased focus on ‘professional scepticism’ – in particular the need not to bias work toward obtaining evidence that is corroborative or excluding evidence that is contradictory. It also introduces strengthened documentation requirements for auditors in this area.
8. The requirement for auditors to obtain ‘sufficient, appropriate’ evidence from risk assessment procedures as the basis for the risk assessment
9. A new ‘stand-back’ requirement which compels auditors to reconsider the audit implications, when material classes of transactions, account balances, and disclosures are not assessed as significant in the original assessment and to reconsider if the original assessment is appropriate



Changes to the annual audit

- The revisions to the standard that require auditors to perform separate inherent risk and control risk assessments, combined with the new inherent risk factors framework, will mean that auditors refresh their risk assessments of entities being audited. They must also seek to gain new, deeper insights about the most significant matters which could affect the audit.
- The new concept of the 'spectrum of inherent risk' will change how all risks are assessed. Where the assessed risk falls on the spectrum will determine the scope and extent of further procedures auditors will need to perform. The higher on the spectrum the risk falls, the more persuasive the audit evidence needs to be. Therefore, the spectrum of risk concept should drive improvements in the focus of audit work towards those areas which are susceptible to greater risk, while the changes to how audit evidence is to be assessed is anticipated to lead to better quality audit evidence.
- The requirement for auditors to obtain a far deeper and wider understanding of risks faced by the audited entity together with a greater understanding of its IT environment and controls will increase the time devoted to planning audits. Audit teams will spend more time completing risk assessment processes, performing more detailed audit planning, and will make new or more detailed enquiries and requests of management, operations, and IT teams in order to increase their understanding and meet the requirements of the new audit standard.
- The changes to audit evidence requirements build upon the concepts introduced with ISA 540 (Accounting Estimates) in 2019; auditors are likely to require more evidence across the audit, particularly those areas which are the most complex, subjective, or judgmental. When these changes are combined with the increased focus on the need for 'professional scepticism' in audit, management of audited entities are likely to find they are asked for greater quantities of, or more detailed, audit evidence during the audit process.

While meeting the requirements will increase the amount of audit team and management time spent on the audit, this deeper understanding of audited entities is anticipated to result in changes to the detailed audit approach and improve the quality of audits by ensuring that audit resources are increasingly focused on the most material risks faced by entities. Additionally, while the focus of the changes to the audit standard and required responses are designed to improve audit quality, we also anticipate that entities may often receive new or more detailed insight into control weaknesses as a result of the enhanced audit risk assessment and subsequent detailed audit work.

Conclusions

In their impact statement the FRC expected that, "benefits in the public interest of enhancements to the quality of audit through a more robust and consistent risk identification and assessment, although not quantifiable, will outweigh the costs of changes that may be necessary to audit firms' methodologies."

We concur with the FRC that the changes will enhance audit quality across all compliant UK audits, but the costs of compliance will be significant. The extent of the impact on different entities will likely reflect the scale and complexity of the audited entity, the risks it faces, and the scale and complexity of its control environment, including the extent of IT systems and controls in use. Due to the differing levels of impact on different entities, it can be hard to make generalisations about the likely impact on audit fees, but we estimate that audit fees will rise by between 5-20% to meet the new requirements imposed by ISA (UK) 315.

To meet the increased requirements of the new regulations in an efficient and timely manner, that minimises as much as possible the additional time and cost expected, auditors should liaise with management and finance teams early in the audit planning process to set out the impact of the new requirements on the audit plan and the necessary deliverables from management. The new processes for risk assessment and understanding the internal controls, including those over IT, are likely to involve staff at the audited entity from outside the finance function, particularly IT staff or service providers. These team members should be alerted to their probable involvement as soon as practicable.

At haysmacintyre, we are currently transitioning to new audit software that has early adopted the new documentation and risk assessment requirements of the new audit standard. This software, alongside other investments in technology such as in data analytics and file sharing software, will help us to maintain an efficient audit process and is hoped to minimise the time cost increases due to ISA (UK) 315. However, the new requirements are substantial and increases in audit time costs and consequently audit fees are expected. As above, we plan to work closely with our clients to ensure that they can provide the necessary new information and audit evidence on a timely manner to minimise, as much as possible, increases in audit time costs and fees.



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Digital Transformation of Audit

As the world becomes increasingly digital and 'online' focused, our way of working has also. Many of you will have recently upgraded your systems to be on 'the cloud' and tightened your cyber security. You will have invested in IT to facilitate remote working during the pandemic. Many will have also looked at the way data is stored and changed or upgraded your systems.

Audit is digitally evolving to improve the quality and efficiency of audits. But what is digital transformation in the context of audit and why is it necessary?

Why change now?

Following high-profile audit failures and resulting regulatory investigations, the Financial Reporting Council have responded by enacting significant and numerous regulatory changes over recent years, including an increase in their expectations of auditors. This response includes significant changes to audit standards, which will apply to December 2022 year-end audits. The current and most notable regulatory changes coming into effect are the revised ISA (UK) 315 and revised ISA (UK) 240, for periods commencing on or after 15 December 2021. Further regulatory changes are ISQM 1, effective from 15 December 2022 and revisions to ISA (UK) 600 taking effect from 15 December 2023. With the increased regulation, it is necessary to deliver an even more robust, high-quality and efficient audit.

How are haysmacintyre audits changing?

We are currently transitioning our audit software to 'Inflo' working papers, which is fully compliant with the new audit regulations and delivers many benefits for our clients also.

Inflo is currently the world's only audit platform combining digital collaboration, data acquisition, data analytics, in-built working papers and client reporting. It is a secure, cloud-based and multi-award-winning platform which facilitates a digital audit process and helps to drive high-quality, effective audit work, with added value. The platform meets world-class security standards, holding ISO 27001 certification, advanced encryption and single sign-on.

Many clients will be aware that we have already been utilising some of Inflo's data-driven audit tools within our audits, to bolster our existing audit platform and remain at the forefront of modern data-driven audit expectations. Previously, Inflo greatly contributed to our ability to continue to successfully deliver our audits during the challenging period of the pandemic.

During this time, we have built up our team's experience and expertise of data analytics and AI within the Inflo platform. By implementing Inflo Workpapers, the change will also involve moving all of our audit documentation onto the platform. In turn, this will result in a fully integrated system that has best in class regulatory controls and testing ability. This significant investment by the firm demonstrates our commitment to continuously deliver high quality services to our clients.

What are the benefits for our clients?

As a firm, we are committed to audit quality and exceptional client service, and we are continuously innovating to maintain our delivery of robust high-quality audits and added-value services. There are a wide range of benefits arising from this change, the most notable to our clients include:

- Inflo is a cutting-edge system for regulatory compliance, and will be frequently updated. This will ensure a continued high-quality audit service, fully compliant with fast-paced changing regulations.
- Inflo is simple, intuitive, and transparent collaboration tools with excellent client feedback.

- The automation of various routine tasks reduces the risk of human error and focuses more time on identifying and addressing key audit risks and adding value.
- It enables teams to effectively analyse big data sets, as well as open up auditing approaches and techniques that would not be possible without data analytics and AI.
- The above data analysis can be interpreted by our sector specialists to provide an added-value and insightful client service.
- It is possible for clients to directly access some of the data analytics tools and glean business insights at their convenience.

But what are data analytics?

Data analytics has been a buzz word in the audit world in recent years. All medium to large audit firms have been using it for some time. But do many of us know what it really means?

Using full and complete data, such as the financial transactions in a year, data analytics can be used to spot trends and patterns using digital technology. This is in comparison to an auditor manually trawling through large data to spot trends or using sample spreadsheets. Data analytics is a tool used by auditors to analyse and categorise hundreds of thousands of items to present the information in a way that is digestible. An example is to highlight unusual transactions in an accounting system for journals testing such as those posted in the middle of the night or at the weekend. Another example is to use data analytics to digest the hundreds of thousands of revenue postings and see this in month-by-month graphical format to spot patterns and trends, including any indications of outliers.

Conclusion

As the working world evolves, and audit regulation increases, there is only one way that audit is going, and that is digital. At haysmacintyre we have already taken the exciting step for digital transformation and look forward to reaping the benefits for our audit teams and clients alike.

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Upcoming events programme

We have one of the largest charity and not for profit teams in the country: we act for over 800 clients, accounting for approximately 40% of our annual turnover. Our team of specialists host topical seminar updates and speak at other organisations' events presenting the latest developments within the not for profit sector.

PARN Finance Special Interest Group

Thursday 9 February 2023

15:30 – 17:30

Online

Trustee Training: What Every Trustee Should Know

Thursday 30 March 2023

09:30 – 13:00

Online

Trustee Training: Charity Law Update

Wednesday 15 February 2023

13:30 – 17:00

Online

PARN Finance Special Interest Group

Wednesday 7 June 2023

15:00 – 18:00

haysmacintyre

Trustee Training: Introduction to Charity Finance Reporting

Tuesday 7 March 2023

09:30 – 13:00

Online

Memcom Conference 2023

Thursday 29 June 2023

09:00 – 18:00

Etc Venues, London

To book your place at any of our events,
please visit haysmacintyre.com/events

PIMBs team

If you need guidance on any audit and accounting, financial reporting, statutory obligations, funding, employment tax or direct tax matter you can contact any member of our PIMBs team using the details below.

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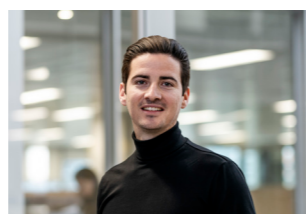
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CharityFinance

Top ten by audit fees in the 2020 Charity Finance Audit Survey