Practice Audit Monitoring Update

Agenda

1. Practice monitoring programme
2. Remote audit monitoring – desk top application and hard copy files
3. Common deficiencies in ISQC 1 compliance
4. Introduction to Quality Management Standards (ISQM 1 & 2)
5. Common deficiencies in audit planning
6. Common deficiencies in audit evidence
7. Common deficiencies in audit completion
8. Covid-19 audit considerations

Practice monitoring programme

- Audit monitoring visits undertaken by ACCA on behalf of PAB started January 2011
- Primary purpose – to monitor compliance with International Standard on Quality Control No. 1 (ISQC 1), International Standards on Auditing (ISAs) and the IESBA Code of Ethics for Professional Accountants including International Independence Standards directly relevant to audit of annual financial statements
- Since 1 January 2016, firms with PIE audits are monitored on a three-year cycle while the rest continue to be monitored on a six-year cycle
- All firms including part-time practitioners, with at least one audit client are subjected to monitoring
- Early follow-up visits are carried out to firms with unsatisfactory outcomes after two years (one year for firms with PIE audits) or four years (two years for firms with PIE audits), depending on severity of non-compliance with ISAs
- Apart from new firms, all audit firms have been reviewed at least once

Review of audit files and other documents

Remote desktop application

- Review done through a remote desktop application, such as Microsoft Teams or Zoom, depending on what will work best for the firm.
- The firm loads the audit files/documents onto a laptop that does not contain any other information not relevant to monitoring, nor does it allow access to the firm's server i.e. stand-alone laptop not connected to its server.
- Firm grants the Senior Practice Reviewer (SPR) with remote access to the stand-alone laptop.
- SPR will be able to review the firm's audit files, irrespective of any audit software it uses.
- There will be no need for the firm to send audit files or documents to the SPR and therefore there is no concern over their security and confidentiality. SPR will only be able to review the audit files and other information on the firm's laptop, without being able to either amend or even copy them.
- While the SPR has access to the firm's laptop, the firm will be able to see in real time which of their files/documents are being accessed and reviewed.

Cloud-based file sharing tool

- The SPR will create a separate shared folder in OneDrive. An email will then be sent to the firm containing a link to the shared folder. Password for accessing the folder will be sent separately.
- The firm will be able to access the shared folder through the link and upload the files and documents.
- Access to the shared folder will be limited to the SPR and the firm. After the completion of the review, the files and documents will be deleted from the shared folder.
- Alternatively, firms can set up a shared folder of their preference, which should be password protected, and grant access to it to the SPR.

Remote Monitoring

Hard Copy Files

- SPR will then inform the firm in advance of the audit files and records that should be made available for review, so that it has enough time to scan any hard copy working papers/documents (convert them to PDF) and save them in a folder.
- Although a firm may maintain hard-copy files, in most cases working papers are prepared in Microsoft Excel/Word and then printed and filed. In such cases the firm will be advised to save such working papers in a folder, rather than scan them. It would only need to scan those documents not prepared by the firm, such as bank and other confirmation letters, contracts, management representation letter, etc.
- Once the firm has been able to prepare electronic files as described above, it would not be inconvenienced any further.

Common deficiencies in ISQC 1 compliance

Common deficiencies in ISQC 1 compliance - Overview of ISQC 1

Applies to firms which perform assurance engagements such as audits

Requires audit firms to document and implement firm-wide policies and procedures to ensure compliance with ISAs

Covers leadership, ethics, acceptance and continuance, human resources, engagement performance, and monitoring

Common deficiencies in ISQC 1 compliance (cont.)

Leadership responsibilities

- Policies and procedures not documented and implemented
- Staff not confirming have read and understood

Ethical requirements

- Annual independence declarations not obtained
- Register of identified threats and safeguards not kept

Common deficiencies in ISQC 1 compliance (cont.)

Client acceptance and continuance

- New client/ reappointment checklist not completed
- Professional clearance not obtained
- Engagement letters issued before above procedures completed

Human resources

- References for new staff not obtained
- Fit and proper and confidentiality declarations not obtained
- Staff appraisals informal or not done
- Insufficient training

Common deficiencies in ISQC 1 compliance (cont.)

Engagement performance

- Audit methodology non-existent or ineffective (audit programmes)
- Lack of partner involvement in planning, supervision, control and review
- No policy on engagement quality review
- No procedure on file assembly, archiving and accessibility

Monitoring

- Periodic review of policies and procedures not done
- Periodic review of completed engagements not done (“cold review”)

Introduction to Quality Management Standards (ISQM 1 & 2)

Introduction to ISQM 1 & 2

- Replaces ISQC 1 and becomes effective 15 December 2022
- ISA 220 also revised and becomes effective 15 December 2022
- Increased responsibilities of firm's leadership
- Enhanced partner responsibility for audit engagement leadership & quality
- Risk-based approach focusing on quality objectives
- Addresses technology, network firms and external service providers
- Increased focus on continuous flow of information and communication
- Monitoring of quality management systems and remediation of deficiencies
- Clarifies and strengthens requirements for a more robust Engagement Quality Review (EQR)
- Refer to http://www.iaasb.org/focus-areas/quality-management

Common deficiencies in audit planning

Common deficiencies in audit planning

- No/inadequate risk assessment – risk identification procedures from:
  - Understanding the client's business (ISA 315)
    - Nature of business and environment, cient structure, industry information, key customers and suppliers, related parties, accounting systems and internal controls (including walkthrough tests)
  - Non-compliance with laws and regulations (ISA 250)
    - Identify and document laws and regulations central to the conduct of client's business, design procedures to verify compliance, assess audit risk from any non-compliance
  - Preliminary analytical procedures (ISA 315)
    - Identify unusual events, ratios and trends and consider their impact on the audit approach
  - Actual or suspected fraud (ISA 240)
    - Make inquiries of management regarding its processes for identifying and responding to risks due to fraud, including specific risks
    - Determine whether management/ senior key personnel have knowledge of actual, suspected or alleged fraud
    - Discuss fraud risk factors with the audit team and their impact on the audit approach

Common deficiencies in audit planning (cont.)

Planning – Design of Audit Procedures

- Significant audit areas based on risk assessment and audit approach not identified
- Design of audit procedures – suitable audit programme not developed or standard programme not tailored
- Overall and performance materiality not calculated/ basis of calculation not justified (ISA 320)
- Audit sampling not structured to ensure sufficiency of audit evidence (ISA 530)

Audit documentation

- ISA 230 requires sufficient documentation of audit work to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements.
- Common deficiencies in documentation of the audit work (ISA 230):
  - Work performed but not (adequately) recorded/ cross referenced
  - Basis of sample size and selection not recorded
  - Insufficient or no record of the objectives and nature and extent of the audit work – source of audit evidence and samples tested not recorded
  - No summary and evaluation of the results of audit tests to support the conclusion, including record of any professional judgments applied
  - Professional judgement on significant matters not recorded

Common deficiencies in audit evidence

Common deficiencies in audit evidence (cont.)

Inventory

- Physical count not attended, or procedures observed not recorded and assessed
- Test counts not carried out or recorded (including direction of count) and not traced to final stock valuation
- Unit cost not verified (including allocation of direct labour and production overheads in respect of manufactured goods)
- Net realisable value not verified based on after date selling prices and no assessment of impact from slow moving, obsolete and damaged inventory

Common deficiencies in audit evidence (cont.)

Trade receivables

- Recoverability of trade receivables not adequately tested:
  - No consideration of ECL provisions of IFRS 9 (e.g., simplified approach)
  - No assessment of the reasonableness of the loss rates applied on the ageing of trade receivables for the calculation of ECL provision using the “simplified approach” in IFRS 9
  - No testing of the accuracy of the ageing of trade receivables used for the calculation of ECL

Trade and other payables

- Completeness of payables not verified, e.g., by review of post year end payments and unpaid invoices
- Validity, completeness and financial statement classification of balances due to related parties not verified

Common deficiencies in audit evidence (cont.)

Revenue

- Completeness of income not tested i.e., by testing from records of supply of goods or services to sales invoices and accounting records:
  - Examples of records of supply of goods – despatch notes and waybills
  - Examples of records of supply of services – contracts, agreements, occupancy records, time sheets
- Substantive analytical procedures not performed such as:
  - Review of gross profit margins (by product area and by month or quarter)
  - Review of sales levels with prior years

Cost of sales & other non-payroll expenses

- Basis of selection of items for testing and source documents tested not documented
- No assessment whether amounts paid for rent represent leases which should be accounted for in accordance with the requirements of IFRS16

Common deficiencies in audit completion

Common deficiencies in audit completion

Analytical review (ISA 520)

- Final analytical review not performed

Subsequent events (ISA 560)

- Subsequent events review not performed or adequately documented
- Review not extended as close as practicable up to the date of the audit report

Going concern (ISA 570)

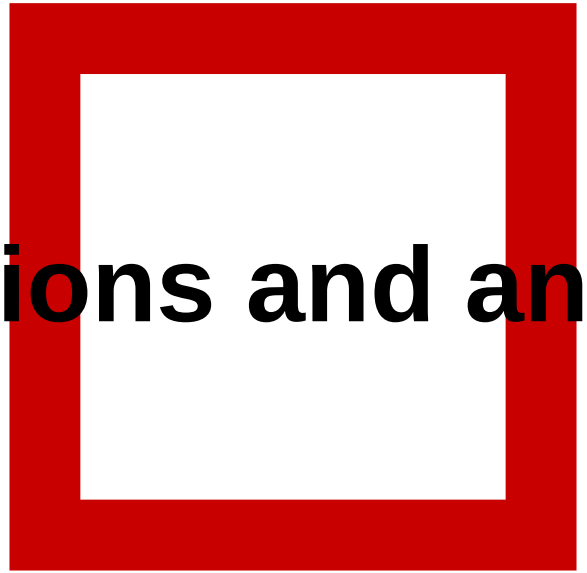
- No going concern review documented
- Where there are indicators of a material uncertainty over going concern, no evidence obtained to justify the going concern assumption. No disclosure of the matter, including management plans in the financial statements and material uncertainty not included in the audit report where appropriate
- Shareholders financial support letters not obtained, or if obtained, their ability to provide such support is not assessed

Covid-19 audit considerations

Covid-19 audit considerations

- Going concern and subsequent events disclosures
- Use of historic data to determine audit estimates (ECL, fair values, impairment testing, recoverability of deferred tax assets)
- Internal controls not designed for remote working and impact on fraud risk
- Impact of incentive for corporate survival and reduced direct supervision by owners on fraud risk
- Reduced materiality and greater professional scepticism to compensate for greater uncertainty
- Impact of request for audit fee reductions on audit independence
- More audit evidence required for new clients due to lack of familiarity with the client
- Greater use of consultations and EQCR
- Training and supervision of audit staff remotely

Questions and answers



Thank you