

*ACCA/PAB/ICAJ/ICAC Audit
Monitoring Programme*

UPDATE

16 January 2016

AGENDA

1. Audit Monitoring Programme
2. The audit monitoring process
3. Visit outcomes
4. Big 4 and international networks
5. Small firms – Underlying causes of unsatisfactory outcomes
6. Control of audits
7. Common deficiencies found in audit files
8. Action plans
9. How firms should prepare for an audit monitoring visit

AUDIT MONITORING PROGRAMME

AUDIT MONITORING PROGRAMME

- Audit monitoring visits undertaken by ACCA on behalf of PAB and started in January 2012
- Schedule of firms to be visited selected include new firms and those requiring early follow-up visits based on results of previous visit
- Completed PVQ /details of audit clients to be sent by selected firms to ACCA for visit planning
- Primary purpose – to verify compliance with International Standard on Quality Control No. 1 (ISQC 1) and International Standards on Auditing (ISAs)

AUDIT MONITORING PROGRAMME

- Firm's awareness of Jamaica Money Laundering Regulations - effective for PAB registrants from 1 April 2014
- Only first visits undertaken in 2012 and 2013
- Mainly follow-up visits (second visits) in 2014 and 2015 with some first visits
- Follow-up visits – scope same as routine (first) visits with focus on improvements made since previous visit

THE AUDIT MONITORING PROCESS

THE AUDIT MONITORING PROCESS

- Arranging the visit:
 - Firm contacted by telephone
 - Requested to complete PVQ and audit clients discussed
 - Date of visit agreed and confirmed in writing
- Undertaking the visit
 - Opening meeting - background /quality controls procedures
 - Examination of audit files
 - Closing meeting - discuss and agree the findings and overall outcome and guidance on any improvements given
- Post-visit procedures
 - Report on visiting findings, conclusion and guidance drafted
 - Internal quality control of review of report/visit papers
 - Report / action plan template sent to the firm
 - Firm's response including action plan received and reviewed
 - Report and firm's response /action plan sent to PAB

VISIT OUTCOMES

ANALYSIS OF VISIT OUTCOMES – 2014 AND 2015

Visit outcome	First visits		Follow-up visits		Total	
	No. of firms	%	No. of firms	%	No. of firms	%
Satisfactory	8	29%	12	24%	20	26%
Unsatisfactory	20	71%	38	76%	58	74%
Total	28	100%	50	100%	78	100%

ANALYSIS OF VISIT OUTCOMES – 2014 AND 2015

- 78 firms visited of which 28 were first visits and 50 were follow-up visits
- First visits – 29% had satisfactory outcomes with the remaining 71% unsatisfactory
- Follow-up visits – 26% had satisfactory outcomes with the remaining 74% unsatisfactory
- Big 4 and international network firms tend to have satisfactory outcomes
- Majority of small national firms which form the bulk of the firms tend to have unsatisfactory outcomes

Big 4 and international networks

- Aware of requirements of auditing standards
- Effective application through global methodology which is continually updated
- Audit personnel provided with relevant training
- Internal monitoring of application of audit methodology
- Weakness – scope out certain material items on basis of low risk – contravention of auditing standards (ISA 330.18)
- Overall compliance with auditing standards generally good
- Unsatisfactory outcome usually due to failure to perform sufficient audit procedures in one or two key areas

SMALL FIRMS – UNDERLYING CAUSES OF UNSATISFACTORY OUTCOMES

- Small firms form bulk of PAB firms
- Unsatisfactory outcomes usually for more fundamental reasons
- Little or inadequate awareness of practical application of auditing standards
- Lack of understanding of:
 - Approach to audit
 - How to plan the audit
 - How to identify audit objectives
 - How to design and execute audit procedures
 - How to tailor proprietary audit programmes
- Lack of documentation - audit tests, results and conclusion

CONTROL OF AUDITS

- Arises mainly when issuing audit reports for clients of unqualified accountants
- No direct contact with, or access, to clients to:
 - communicate on matters required under ISA 260 and 265
 - obtain understanding of business and assess audit risks
 - deal with evidential matters including on analytical, going concern and subsequent events reviews and written representations
- No involvement in the planning, direction and supervision of the audits
- Audit files retained by, and property, of unqualified accountants
- Only involvement in the audits might be to review audit files before issuing audit reports
- Minimal fees, normally reimbursed by the unqualified accountants
- Unethical and serious breach of ISA 220

COMMON DEFICIENCIES FOUND IN AUDIT FILES

COMMON DEFICIENCIES FOUND IN AUDIT FILES

Planning – risk assessment

- Lack of proper understanding or documentation of client's business and environment (ISA 315) – nature of business and operations, industry, accounting systems and controls, laws and regulations, related parties etc.
- Audit risks not identified from:
 - understanding of the client business (ISA 315)
 - any non-compliance with laws and regulations (ISA 250)
 - consideration of fraud and error (ISA 240)
 - preliminary analytical review (ISA 315)
- Plans adequate but not effectively applied

COMMON DEFICIENCIES FOUND IN AUDIT FILES

Planning – Design of audit procedures

- Key audit areas based on risk assessment and audit approach not identified
- Suitable audit programme not designed or standard programme tailored to address key and material areas
- Overall and/or performance materiality not calculated
- Ineffective or no sampling technique – to determine sample sizes and selections

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Documentation (ISA 230)

- No record of audit work – Work done but not recorded is assumed not done even if audit programme ticked off
- Insufficient record of nature and extent of audit work – description of tests, source of audit evidence and samples tested not adequately recorded
- Basis of sample size and selection not recorded
- Results of audit tests not summarised and evaluated to support the conclusions

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Control and review

- Engagement partner supervision and review not evident or effective

Deficiencies in audit evidence

- Existence of plant and equipment not verified
- Ownership of property not verified
- Valuation of property not assessed – No impairment review
- Inventory
 - Physical count not attended
 - Test counts not recorded
 - Test counts not done in both directions
 - No tests on cost and net realisable value
 - No consideration of stock obsolescence

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Deficiencies in audit evidence (continued)

- Recoverability of receivables (including related party receivables) not tested
- Bank confirmations not obtained to verify completeness of bank balances and charges over assets
- Completeness of payables not tested – Supplier statement reconciliations, cut-off test and review of after date invoices and payments
- Completeness (understatement) of income – from records of supply of goods or services to income recorded in the accounting system

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Deficiencies in audit evidence (continued)

- No final analytical review
- No subsequent events review
- No going concern review
- No review of financial statements for adequate disclosures
- No management representation letter

ACTION PLANS

ACTION PLANS

- Firms required to provide detailed action plans to address the deficiencies found at monitoring visits
- Appropriate action plan template together with written instructions enclosed when monitoring visit report issued to the firm
- Guidance on how to complete the template also given at the monitoring visit
- Submitted action plans reviewed to ensure provide a reasonable basis for rectifying the deficiencies
- Copy of the action plan enclosed when report sent to PAB
- Non-submission of action plans considered serious non-compliance
- Firms are expected to implement the action plan and ensure that a satisfactory outcome is achieved at the next visit

HOW FIRMS SHOULD PREPARE FOR AN AUDIT MONITORING VISIT

PREPARING FOR A MONITORING VISIT

- Key – firm to ensure that it complies with ISAs
- Key – firm to establish appropriate policies and procedures and document them (ISQC 1)
- Follow-up visits – Ensure improvements effected based on previous visit findings and action plan submitted
- Effective planning leading to use of an **effective audit programme**
- Record all audit work including reasoning in sufficient detail to support the conclusions
- Ensure all documents are ready before the visit
- Get the most out of the visit by listening carefully to what is said

ANY QUESTIONS?

THANK YOU

