

THE AUDIT QUALITY ASSURANCE SEMINAR

NAIROBI SAFARI CLUB NAIROBI

**PRESENTATION ON MONITORING AUDIT QUALITY REDRESS MECHANISM
BY,
CPA NEBART AVUTSWA**

15th – 16th August 2016

- **Audit Quality Review Process**
- **Audit Quality Reviews key Findings**

- Statement of Member Obligation - SMOs
- Quality Control Standards in the ever changing Environment
- Need for Close Monitoring of auditor's work
- Audit Quality Review process
- Audit Quality Review Key findings

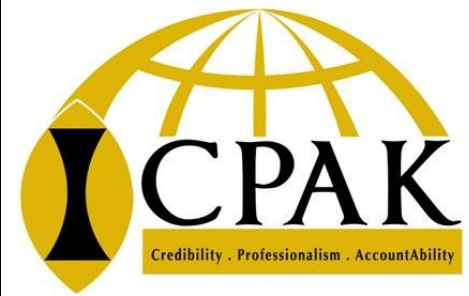
Statement Of Member Obligation by IFAC



- 1) SMO 1-Quality Assurance
- 2) SMO 2- International Education Standards
- 3) SMO 3-International Standards, Related Practice Statements and other papers issued by IAASB
- 4) SMO 4-IFAC code of ethics
- 5) SMO 5-IPSAS & related guidance
- 6) SMO 6-Investigation & Discipline
- 7) SMO 7-IFRS

- It requires member bodies to establish & publish quality control standards & guidance requiring firms to implement a system of quality control in accordance with ISQC 1.
- In compliance of the requirement of SMOs, the institute in 2004 established a system of Audit Quality Review for conducting Audit quality Reviews

Quality Control Standards



- At the firm level:
 - International Standards on Quality Control 1 (ISQC 1) – Quality Control for Firms That Perform Audits of Historical Financial information, and Other Assurance and Related Services Engagements
- Systems should have been established by Dec 09

Con't ...



- At the Institute level:
- Statement of Membership Obligations – Issued April 2004-Now Revised
- Effective 31 December 2009
- Systems should have been established by Dec 09

ICPAK Background



- AQA Framework development
- Pilot reviews
- 1st cycle of reviews-2007/2008
- We are Now in the 3rd cycle and there are 6 reviewers
- Currently there are 1,200 Audit firms at ICPAK

Review Process - Framework



- Council
- RQA Committee
- Notification of date
- Forms to be filled & returned
- Field Review

Review Process



- Firm Review focus on ISQC 1
- Engagement Review-focus on ISAs, (37)
IFRSs/IASs and other professional standards

ISQC 1 - Objectives



- Establish basic principles and essential procedures, and to provide guidance regarding a firm's responsibilities for its system of quality control for;

- ☐ Audits & reviews of historical financial information
- ☐ Other assurance & related services engagements

Objectives of a System of Quality Control



- To provide reasonable assurance:
 - That the firm and its personnel comply with professional standards and regulatory and legal requirements; and,
 - That reports issued by the firm are appropriate in the circumstances

1. Leadership responsibilities for quality within the firm
2. Ethical requirements
3. Acceptance and continuance of clients relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring

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Engagement /file review

Under this review the reviewers review the implementation of the firms quality control policy and as well as the partners compliance with the relevant ISAs in execution of audit.

- Overall Structure –(Clarity Project)
- Introduction, Objective, Definitions, Requirements and Application and other Explanatory Material
- Proportionality of ISAs/ISQC 1-
ISAs 37 in all, 570+ requirements
(incl. ISQC1)

Pre and Post Field Review



- Review Notification
- Pre Review Questionnaire
- Opening Meeting
- Draft Report
- Exit meeting
- Final report and Next cycle of Review

RESOURCES-

<http://www.ifac.org/auditing-assurance/publications-resources>



- Guide to Quality Control for Small- and Medium-Sized Practices, (QC Guide)
- Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities, (ISA Guide)
- Guide to Review Engagements

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- <http://www.ifac.org/auditing-assurance/publications-resources>
- **Companion Manual, QC, ISA, and Reviews Guides**
- **Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements**

Review findings



■ Firm review

- Compared to 2012/2013, a 3 out of 5 firms have tried to document firms quality control policies.

However those policies have not been communicated to the staff nor implemented. Two of the firms with documented policies have implemented the policy though not communicated the policy to the staff. One out of the firms with documented firm quality control policies have developed , documented and communicated and implemented the firm quality control policies to the staff

Review findings



2. File/ engagement review

Under file review, 2 out of 5 firms reviewed does not have any evidence of audit work done. The only documentation is a financial statement with an **audit opinion**

A number of firms reviewed and had an audit/ current file, missed out some key sections of audit like; pre engagement, planning, risk assessment and understanding the client.

Pre engagement stage

Common findings

- Some firms nothing done

- Others a letter to the previous auditor only

- Appointment by client

Explanation

- We did not receive the response from previous auditor

- Was done but not documented

Planning

■ Common findings

- ✓ Nothing done
- ✓ Only time budgeting for purposed of costing
- ✓ Fairly developed and documented an audit plan and strategy

Explanation

We do planning its only that we have not documented

Understanding the entity

Common findings.

- No work done on this. No much improvements even for the 2nd time reviews!

Common explanations.

- The information is contained in financial statements.

Understanding the entity

- Discussed with management but no minutes to support this.

Also some partners say that they have been auditing the client for many years and therefore they know the client business well.

Risk assessment and responding to assessed Risk

Common findings.

- No audit procedures performed.
- Although risks identified and reported in management letters, auditors did not respond to them.

Common explanation.

- Hands tied when external confirmations not received.
- Clients perception that the auditor was becoming more of an investigator.

And the director is in charge of everything hence no risk

Documentation and audit evidence

- **Documentation and audit evidence**
 - ✓ Ledgers only
 - ✓ Model audit file checklists
 - ✓ Audit procedures documented done but no evidence to indicate that the procedures were done

Completion and reporting

Common findings

- ✓ Nothing done
- ✓ No partners review
- ✓ Management letters whose points/ findings could not be traced through the documentation in the file

Review findings

There are firms that are embracing quality work.

Some have gone to extent of acquiring an audit software.

We say, keep the good work up!

REVIEW FINDINGS

- Through the review process the reviewers have found that the quality of the work in the firm depends with the altitude of the leaders (partners).
- Although a number of firms are ready for Audit quality reviews there are a few firms that are not willing to undergo Audit Quality review.

Remember

If it is not documented it was not done



Way forward on quality control

- Regular Training to aid Understand ISA requirements
- Designate one person to lead QC
- Regular stakeholder engagement
- Embrace automation of audit processes
- Knowledge sharing

Looking in the Mirror !!!

- What do you say about our Reviews and Review processes.
- How much value?



THE END – THANK YOU



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