

Direction, Review, Consultation and Dispute Resolution

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Overview



Each firm should obtain reasonable assurance that:

1. engagements are performed in accordance with
 - professional standards
 - regulatory requirements
 - legal requirements
2. the firm or the engagement partner issue reports that are appropriate in the circumstances – supported by audit appropriate audit evidence

Consistency



- A firm should seek to establish consistency in quality across all engagements.
- This is accomplished through
 - written or electronic manuals,
 - software tools
 - other forms of standardized documentation
 - industry specific guidance materials etc

Direction and review



Matters addressed include the following:

- ❑ Briefing of engagement teams - to obtain an understanding of the objectives of their work
- ❑ Processes for complying with applicable engagement standards.
- ❑ Processes of engagement supervision, staff training and coaching
- ❑ Methods of reviewing the work performed, the significant judgments made and the form of report being issued

Direction and review (continued)



- ☐ Appropriate documentation of the work performed and of the timing and extent of the review.
- ☐ Processes to keep all policies and procedures current.
- ☐ Risk inherent in the engagement

Engagement partner



The engagement partner should direct the audit engagement by informing the members of the engagement team of:

- a) Their responsibilities;
- b) The nature of the entity's business;
- c) Risk-related issues;
- d) Problems that may arise; and
- e) The detailed approach to the performance of the engagement.

Engagement team



The engagement team's responsibilities include maintaining:

- an objective state of mind
- appropriate level of professional skepticism,
- performing the work delegated to them in accordance with the ethical principle of due care.

Engagement team



- Members of the engagement team are encouraged to raise questions with more experienced team members.
- Appropriate communication should occur within the engagement team

Engagement team



- It is important that all members of the engagement team **understand the objectives** of the work they are to perform.
- Appropriate **team working** and **training** are necessary to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work

Supervision and review



More senior team members should supervise those less senior. In doing so:

- ✓ Track the progress of the engagement
- ✓ Consider the capabilities of each engagement team member
- ✓ consider the competences of each engagement team member,
- ✓ consider the time available to the team to carry out the work

Supervision and review



- ✓ Check whether the team understands their instructions
- ✓ Check whether work is being carried out in accordance with the planned approach to the engagement.

Supervision and review



- Address **significant issues** arising during the engagement
- Consider their significance and **modifying the planned approach** appropriately
- Identifying **matters for consultation** or consideration by more experienced engagement team members during the engagement

Supervision and review



Reviewers should consider whether:

- The work has been performed in accordance with professional standards and regulatory and legal requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;

Supervision and review



Reviewers should consider whether:

- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Reviewers should evidence areas they have reviewed by
initialling and dating

Engagement partner



Before the auditor's report is issued, the engagement partner, through review of the audit documentation and discussion with the engagement team should be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued

Engagement partner



- Should conduct timely reviews at appropriate stages during the engagement.
- This allows significant matters to be resolved on a timely basis to the engagement partner's satisfaction before the auditor's report is issued.

Engagement partner



The engagement partner reviews should cover :

- critical areas of judgment (difficult or contentious matters)
- significant risks,
- other important areas in his opinion

Engagement partner



- The engagement partner need not review **all** audit documentation.
- However, the partner documents the extent and timing of the reviews.
- Issues arising from the reviews should be resolved to the **satisfaction of the engagement partner**

New engagement partner



- A new engagement partner taking over an audit during the engagement should review the work performed to the date of the change.
- The review procedures should be sufficient to satisfy the new engagement partner that the work performed to the date of the review has been planned and performed in accordance with professional standards and regulatory and legal requirements.

Multiple partners



- Clear definition of responsibilities
- Clear reporting structure

Consultation



Should be frank, frequent and continuous. The engagement partner should ensure that:

- Appropriate consultation takes place on **difficult or contentious matters**
- Sufficient **resources** are available to enable appropriate consultation to take place
- The **nature and scope** of such consultations are **documented**: and
- Consultations resulting from consultants are **documented and implemented**

Consultation (continued)



- consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.

Consultation (continued)



- Consultation uses appropriate **research resources** as well as **collective experience** and **technical expertise** of the firm.
- Consultation helps to **promote quality** and improves the application of professional judgment.
- A firm should seek to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters

Consultation (continued)



- Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters.
- Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations

Consultation (continued)



The documentation of consultations with other professionals that involve difficult or contentious matters should be agreed by both the individual seeking consultation and the individual consulted. The documentation should be sufficiently complete and detailed to enable an understanding of:

- The issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions
- and how they were implemented

Consultation (continued)



Each firm should take steps to:

- Identify areas and specialized situations where consultation is required, and encourage personnel to consult with or use authoritative sources on other complex or unusual matters.
- Matters requiring consultation
 - Application of newly issued technical pronouncements
 - An audit of the financial statements of listed entities
 - Controversial accounting policies
 - Interpretation of accounting standards where alternative treatments could have a material effect on the client's financial position, financial performance or cash flows.

Consultation (continued)



- Matters requiring consultation
 - When it is proposed to issue a qualified report on a listed entity.
 - A continuing engagement with a history of recurring disagreements over major matters, or reporting issues
 - A continuing engagement for a client involved in litigation in which it has been formally charged with issuing misleading or false financial statements.

Consultation (continued)



- Matters requiring consultation
 - An engagement for a new client in an industry or industries where the member firm conducting the work has no prior expertise.
 - A new or existing client contemplating a public offering of one kind or another.
 - A special engagement for a third party (e.g. a legal office) to provide expert advice or to serve as an expert witness,

Consultation (continued)



- Matters requiring consultation
 - Threats to independence arising from non-audit services provided to a client.
 - Tax issues
 - Valuations
 - Computer assisted audit techniques
 - Complex IT issues

Consultation (continued)



In cases where consultation is required, the consultation should be conducted in the following order:

- The engagement partner
- The Second Partner
- Another partner with knowledge / experience in the matter.
- The technical partner
- External specialists

Library (continued)



- Maintain a reference library (could online/or otherwise)
- Be easily accessible to professional staff,
- Should include at the minimum,
 - copies of all applicable official pronouncements
 - appropriate information covering specialized industries in which the firm has one or more clients;
 - accounting texts;
 - auditing texts;
 - tax services;
 - periodicals;
 - and news summaries.

Library (continued)



- Create a pool of firm-wide specialists to serve as authoritative sources in various specialities

Consultation (continued)



- The process by which an individual seeks consultation should be free of rigid procedures, which might discourage consultation or impede resolution of the matter for which consultation is sought.
- Appropriate lines of communication should be maintained with other accounting firms, professional organizations, and private enterprise to deal with questions, which the firm lacks the necessary resources to resolve

Dispute resolution



Disputes usually result from differences in opinion between the following:

- a) Engagement team members
- b) Engagement partner
- c) Engagement quality control reviewer
- d) Person consulted

Dispute resolution (continued)



How to deal with disputes

- ☐ Create a technical committee headed by a technical partner
- ☐ Create a pool of specialisations
- ☐ Create contacts outside the firm

Dispute resolution (continued)



Engagement partner

QC partner

Technical partner
(committee)

MP /CEO

Outsource



Q&A