



# ***ICAEW audit monitoring***

**IFAC SMPC MEETING**

**Credits:**

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**Presented with permission by:**

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# *Today's session*

- Overview of ICAEW audit monitoring activities
- Audit monitoring outcomes (high level view)
- Findings on whole-firm/ISQC1 matters
- Findings from audit engagement reviews including underlying causes
- Helping firms to improve

# *ICAEW audit monitoring - overview*

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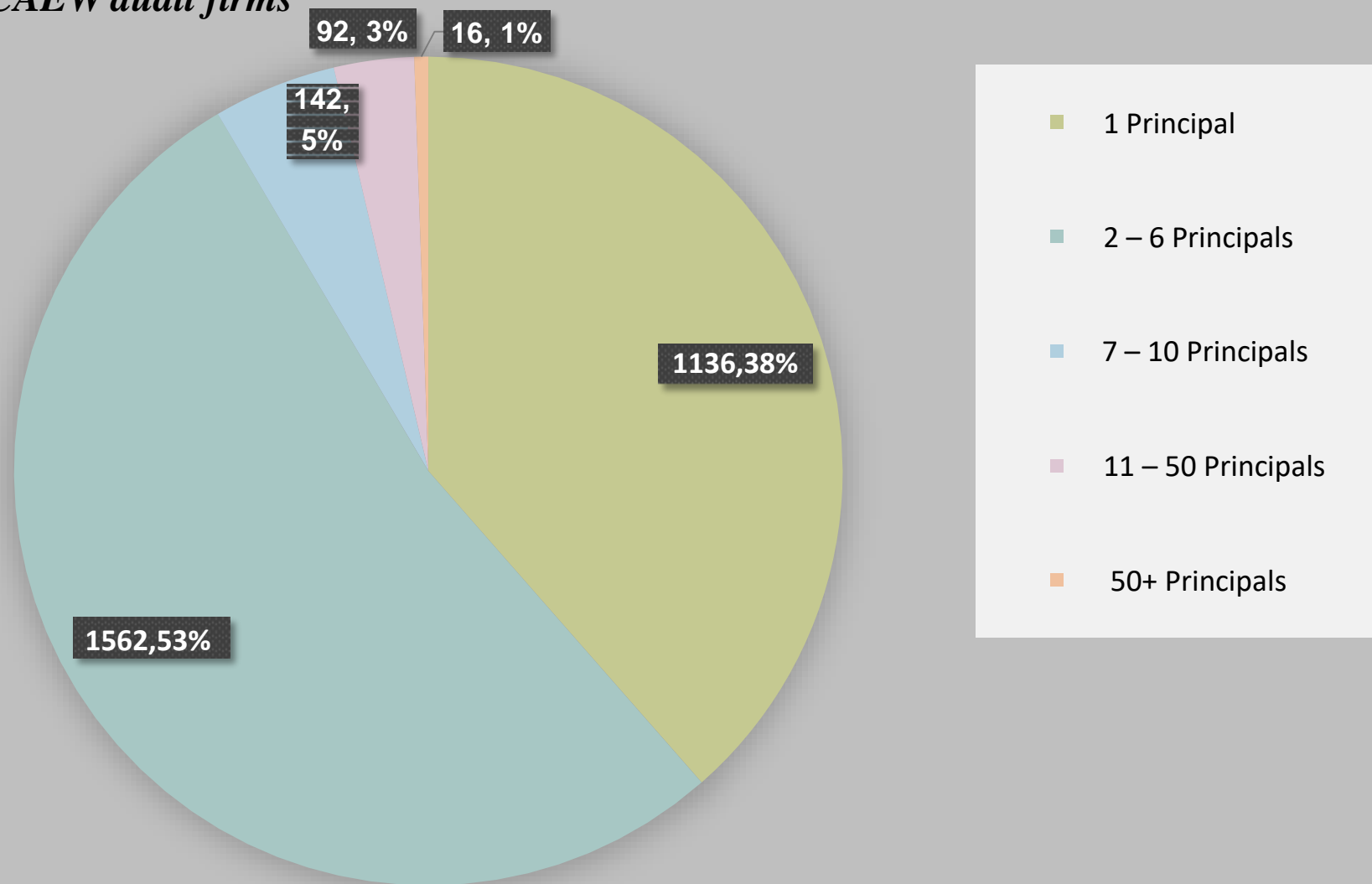
## *Background and philosophy*

**ICAEW is the major Recognised Supervisory Body (RSB) in the UK, registering around 3,000 UK audit firms**

**Nearly 30 years of experience of audit monitoring**

# ICAEW audit registered firms

*Population of ICAEW audit firms*



# *Visit cycles*

Category	Cycle
Big Four firms	Annual visits
Other 'large' firms (next 15 firms)	Annual visits, but possible shorter catch-up visit every other year, subject to committee approval
Medium-sized firms	Visit every 3-4 years
Other firms having listed (eg small AIM) audit clients	Visit every 3-4 years
Smaller firms	Visit every 6 years (accelerated if poor results)
<i>Note: for firms with PIE audits, the FRC cover PIE related aspects.</i>	

# *Our people*

- Team of around 35 plus team management (also do separate Insolvency monitoring and Practice Assurance visits)
- Independence from audit firms:
  - Employees of ICAEW, bar from monitoring 'old employers'
  - Annual declarations (fit & proper, independence)
- High quality team
  - Ex-managers/partners, proven skills
  - Can challenge and advise - based on experience
  - CPD and technical support
  - Training (induction and ongoing) – including focus on consistency and proportionality
  - ICAEW performance review

# *Our philosophy*

- Sensitive to regulatory burden on firms
- Firm-driven culture of quality vital
- Serious assessment - effective, proportionate & uncompromising inspection
- Emphasis on support by providing:
  - Constructive on-site guidance, based on experience – focus on future improvement
  - Wider support - webinars, helpsheets, newsletters etc
- Trust is paramount
  - firms must believe they will be treated fairly by QAD and that decisions are fair, sensible and realistic
  - results in openness and less friction: swift acceptance of findings & solution

# *Ultimately...*

- Firms showing:
  - positive commitment to quality and training
  - investment in good people and good systems

Treated fairly and proportionately and given opportunity to fix problems and improve

- Firms showing:
  - lack of integrity
  - unwillingness to change and improve
  - inability to achieve essential standards

Tough stance - to protect them, their clients and the ICAEW



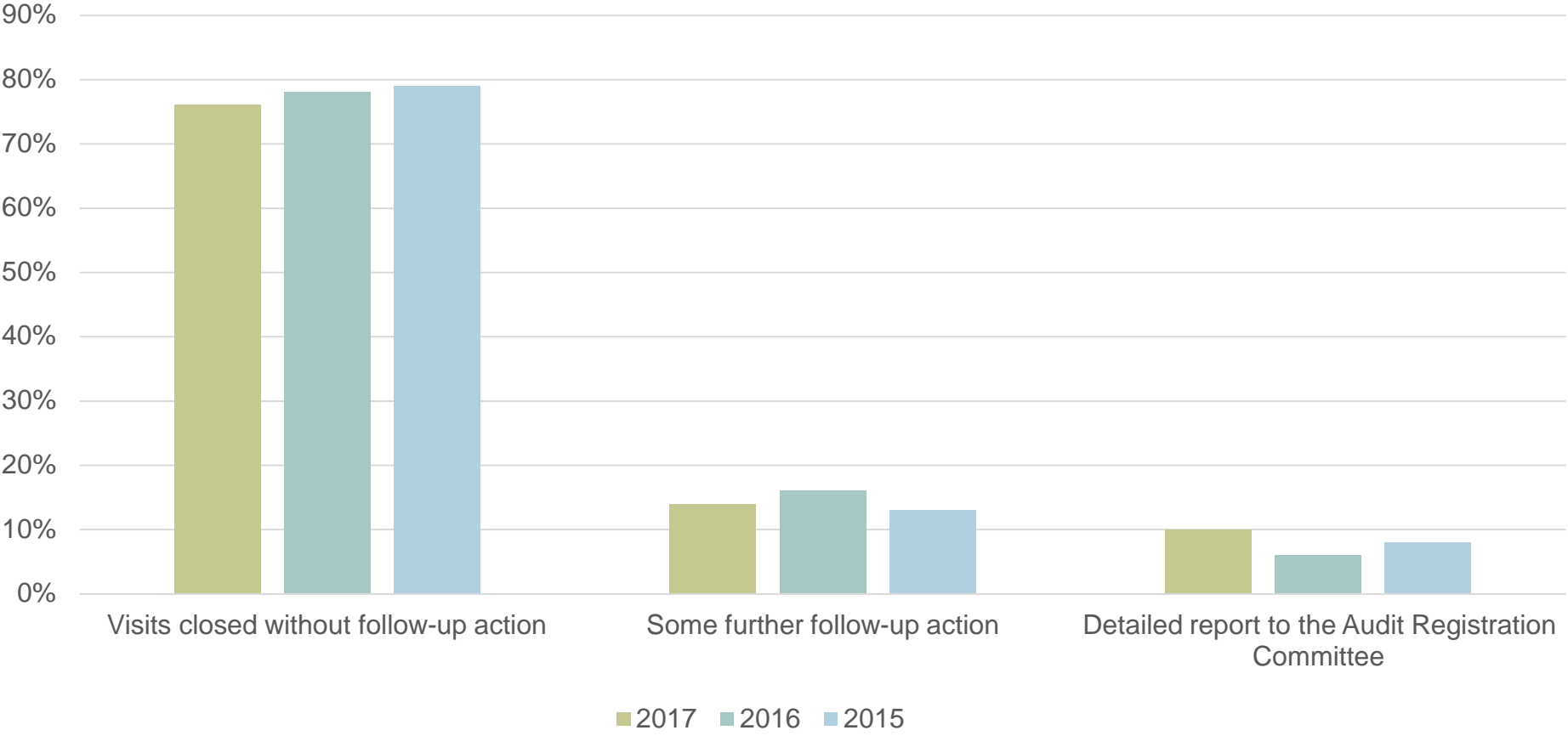
# *ICAEW audit monitoring*



## *Visit outcomes*

A HIGH LEVEL VIEW

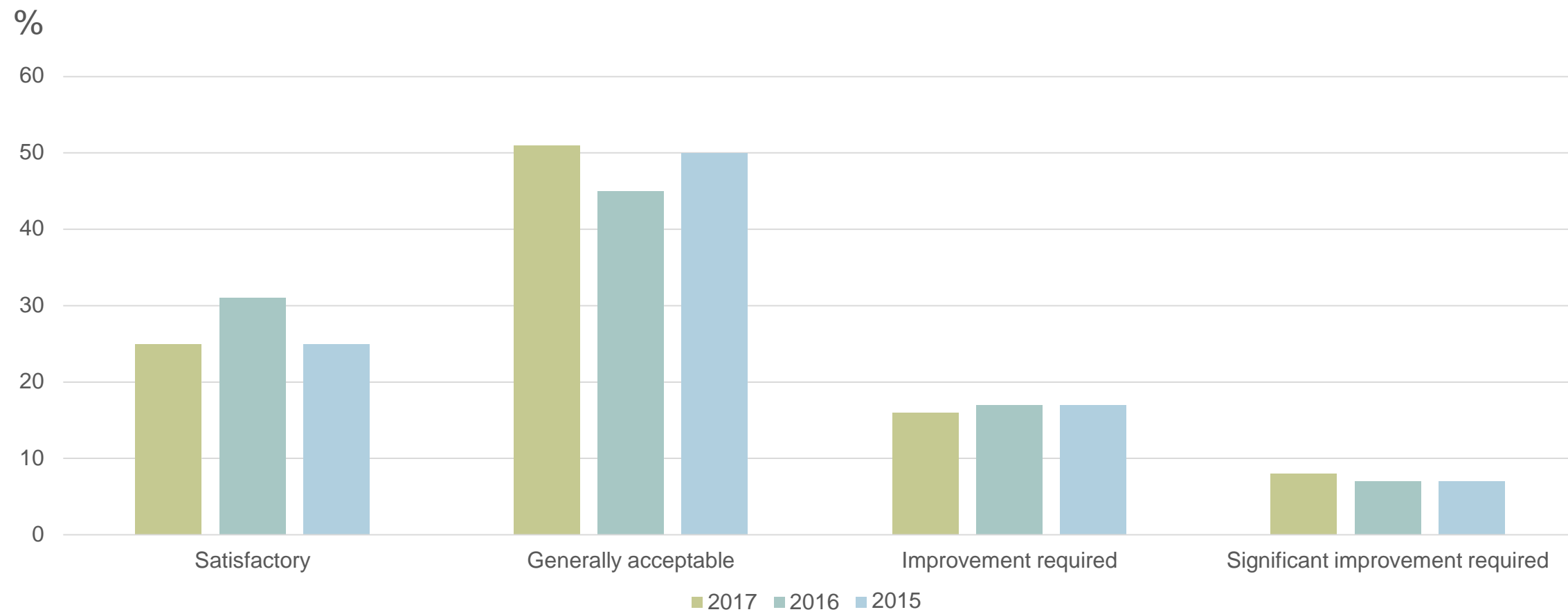
# *Overall visit outcomes*



# *Main reasons for detailed reports*

- Poor audit quality - lack of audit evidence in one or more key area, potential risk of material misstatement not addressed
- Significant accounting/presentation errors in the financial statements not identified through the audit
- Breaches of ethical standards, especially situations that cannot be safeguarded
- Failure to honour previous undertakings
- Eligibility issues – problems with ownership structure

# ***Audit engagement review outcomes***



*Questions?*

# *Our findings in more detail*



*Whole-firm /ISQC1 matters*

# *Whole-firm /ISQC1*

- UK Audit Regulations cover much of the same ground, in place for many years
- Proportionality is key – accept procedures can be informal in small firms
- Not too many problems with policies & procedures covering:
  - Leadership
  - Human resources
  - Engagement performance – most firms have bought-in procedures with inbuilt updates, some issues with EQCR

# *Whole-firm /ISQC1 (continued)*

Some problem areas:

- Ethical /independence requirements - knowledge and application, failure to take adequate account of informed third party test
- Acceptance & continuance – taking on clients outside comfort zone eg small firm taking on a large group with overseas components
- Monitoring – lack of effective cold file reviews, failure to act on findings, misunderstanding the requirements (especially very small firms)
- Lack of documentation of policies & procedures (low hurdle for smallest firms)



*Questions?*

# *Our findings in more detail*



*Findings from audit engagement reviews including underlying causes*

# *Audit engagement review findings*

## Insufficient audit evidence (ISA 500)

- Revenue testing
  - lack of attention to completeness assertion
  - poor tailoring of approach for contract accounting
  - ineffective substantive analytical procedures
- PPE (rights and obligations)
- Valuation of stock
- Goodwill and other intangibles (impairment)
- Reliance on experts

# *Audit engagement review findings (continued)*

## Audit of groups (ISA 600)

- Lack of direction by group auditor of work of component auditors (tail wagging dog?)
- Over-reliance on consolidation questionnaires
- 'Letterbox' companies
- Some material financial reporting errors

# ***Audit engagement review findings (continued)***

## Identifying/assessing risk (ISA315)

- Tendency for ticking of checklists with little to show real consideration
- Not clear the risk assessment is really driving the audit
- Assessing internal controls - firms can struggle with applying to small audits, especially if adopting a fully substantive audit approach
- Reliance on controls without testing them (impact on sample sizes)

# ***Audit engagement review findings (continued)***

## Documentation (ISA 230)

- Thought processes supporting conclusions
- Working papers missing from the file
- Explaining comfort gained from accounts preparation process

# ***Audit engagement review findings (continued)***

## Other common issues

- Sampling (ISA 530)
- Going concern (ISA 570)
- Written representations (ISA 580)

# *Underlying causes*

Lack of  
understanding  
of requirements

Quality control  
weaknesses

Lack of  
professional  
scepticism

Unwise A&C  
decisions

Over-familiarity  
(knowledge in  
head not on file)

Lack of partner  
input



# *Use of technology*

- We see little use of data analytics outside of the largest firms – most commonly used for journals testing
- Barriers for smaller firms – cost-effectiveness for relatively small client base (fee constraints), less scope for use on smaller clients
- Increased use of electronic audit programmes

# *Comparison with IFIAR findings*

- IFIAR focus on largest firms and PIE audits, therefore difficult to compare
- But some familiar areas among most common IFIAR findings
  - Estimates – assessing assumptions, including contrary evidence (more common on larger audits)
  - Revenue recognition where complex
  - Audit sampling
  - Group audits
  - Substantive analytical procedure

*Questions?*

*Helping firms to improve*



*Action plans and other measures*

# *Action plans and other measures*

- Firms required to submit written responses with actions planned/taken
- Visit outcome depends on extent of issues and quality of firm's response
- Follow-up action range from requests for additional confirmations and information, to formal conditions and restrictions or ultimately withdrawal of registration. Committee can also award penalties and refer for further investigation.
- Conditions could include
  - requirement for external hot or cold reviews, and to submit results
  - remediation on a particular audit (if material error suspected)
  - additional training
  - follow-up visit

# *Other initiatives to help firms improve*

- Letters to targeted groups of firms
- FRS102 accounts review project
- Bite-sized webcasts covering a range of topics including estimates, group audits, internal control, audit compliance review ....
- Audit Monitoring Report
- Liaison with Training Providers
- Training films - *False Assurance* and *Without Question*

*Questions?*

