



ICAEW audit monitoring

IFAC SMPC MEETING

Credits:

Original Presenter – LESLEY CLARKE

Presented with permission by:

FCPA - MIKE MBAYA

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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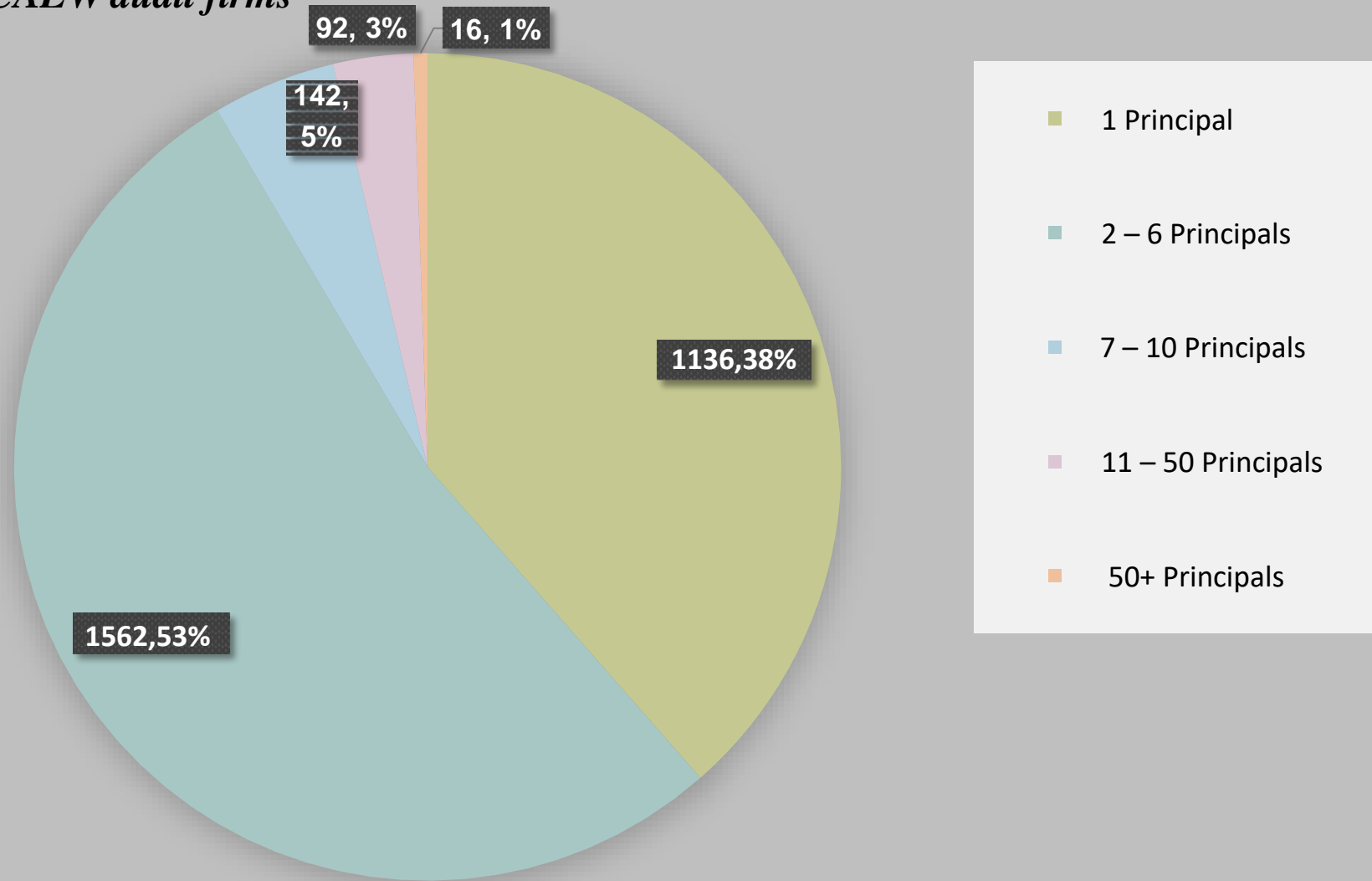
Background and philosophy

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)

Note: for firms with PIE audits, the FRC cover PIE related aspects.

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

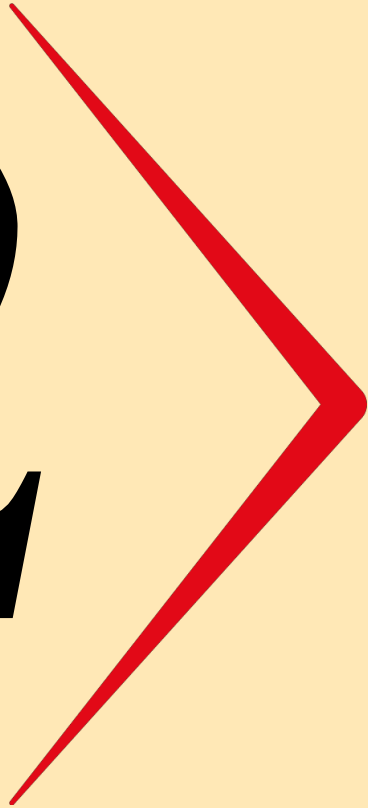
Treated fairly and proportionately and given opportunity to fix problems and improve

- 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

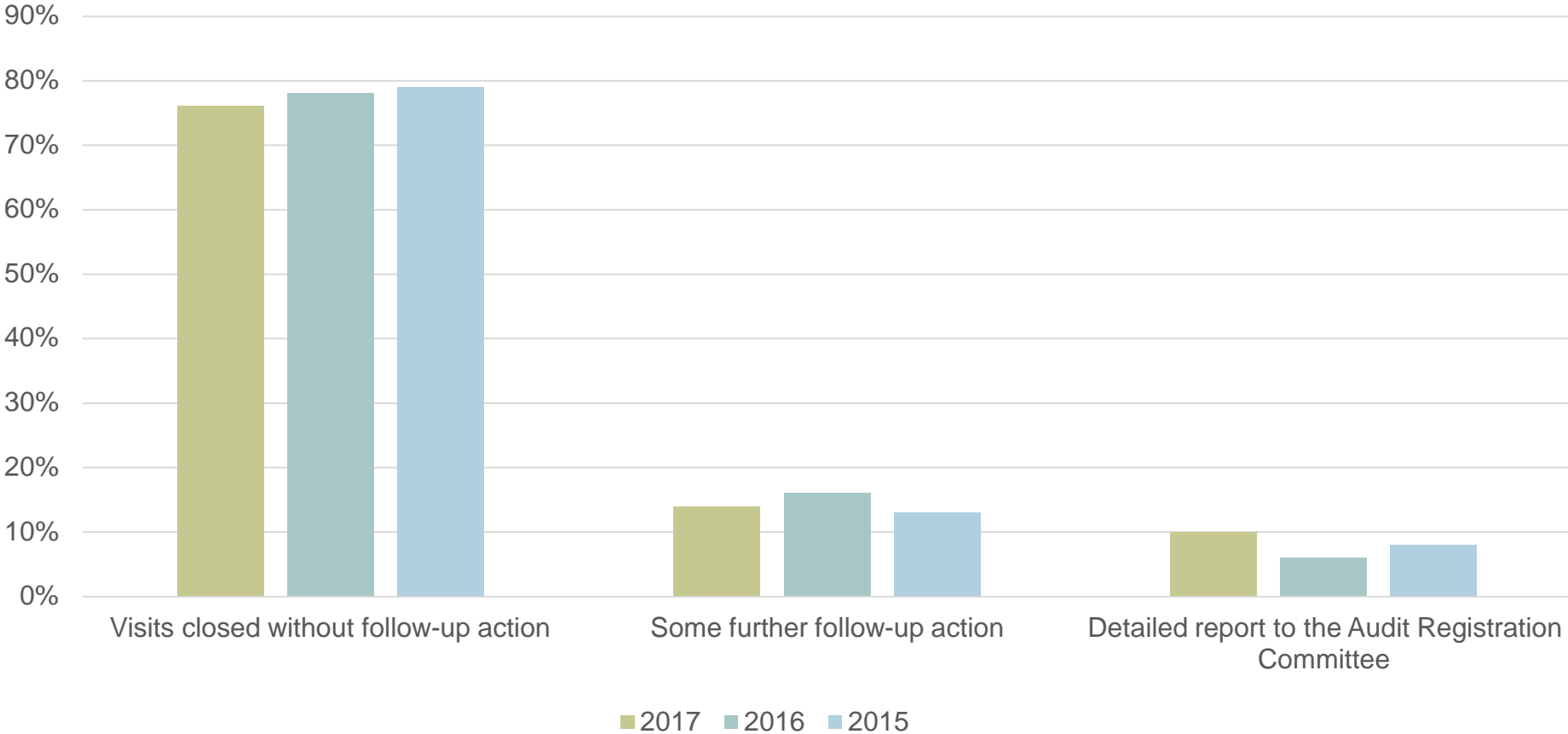
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Visit outcomes

A HIGH LEVEL VIEW

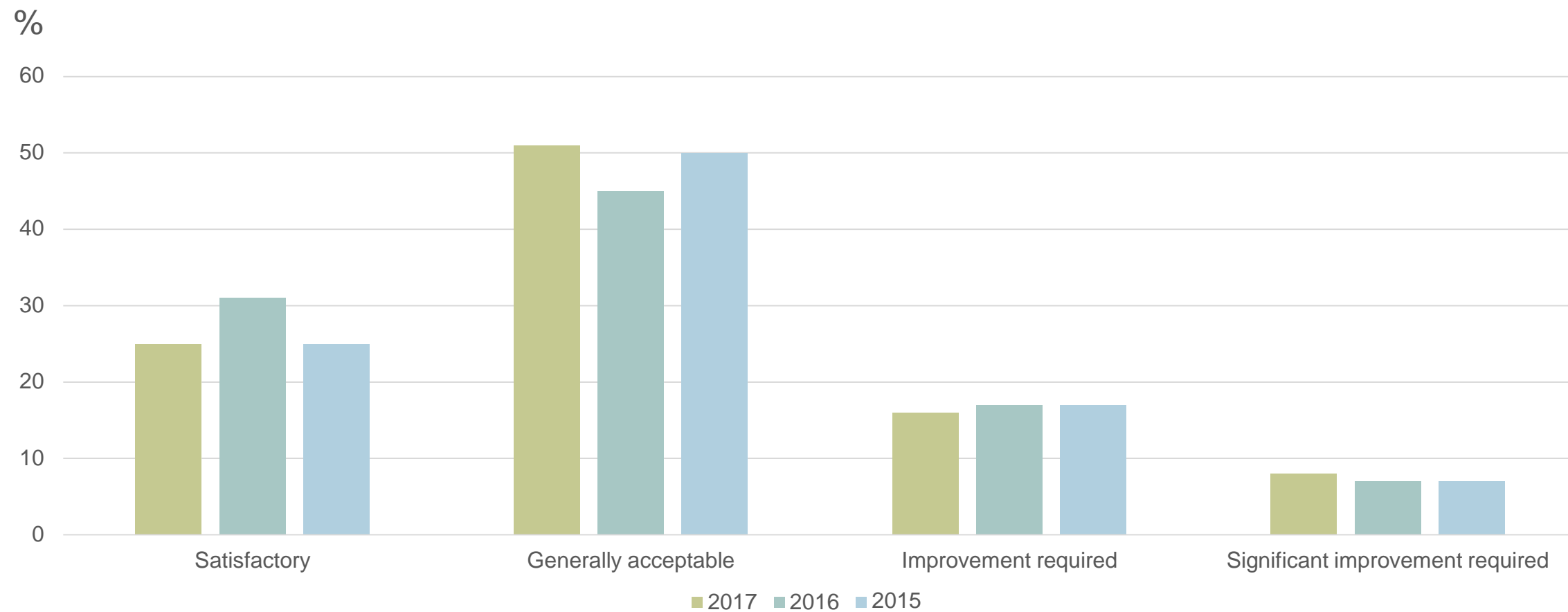
Overall visit outcomes



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?

