



Enhancement of Compliance from Reviews

17th November 2022



WHY WE CARRY OUT REVIEWS

Why we carry out reviews

- **Quality review** is a core mandate of the institute. Section 13 of the accountants' act establishes the Registration and Quality Assurance Committee (RQAC) and its functions that largely focus on quality and regulation of the profession.
- Below are extracts of section 13 on the functions of RQAC on quality:

Why we carry out reviews

- I. **Monitor compliance with professional, quality assurance and other standards** published by the Council for observance by the members of the Institute;
- II. **Prescribe regulations** to govern quality assurance programmes, including actions necessary to rectify deviations from published standards;

Why we carry out reviews

- III. Where appropriate and based on the results of a quality assurance review, recommend to the Council that a **member's conduct be referred for inquiry under section 32;**
- IV. Advise the Council on matters pertaining to **professional and other standards necessary for the achievement of quality assurance;** and:

Why we carry out reviews

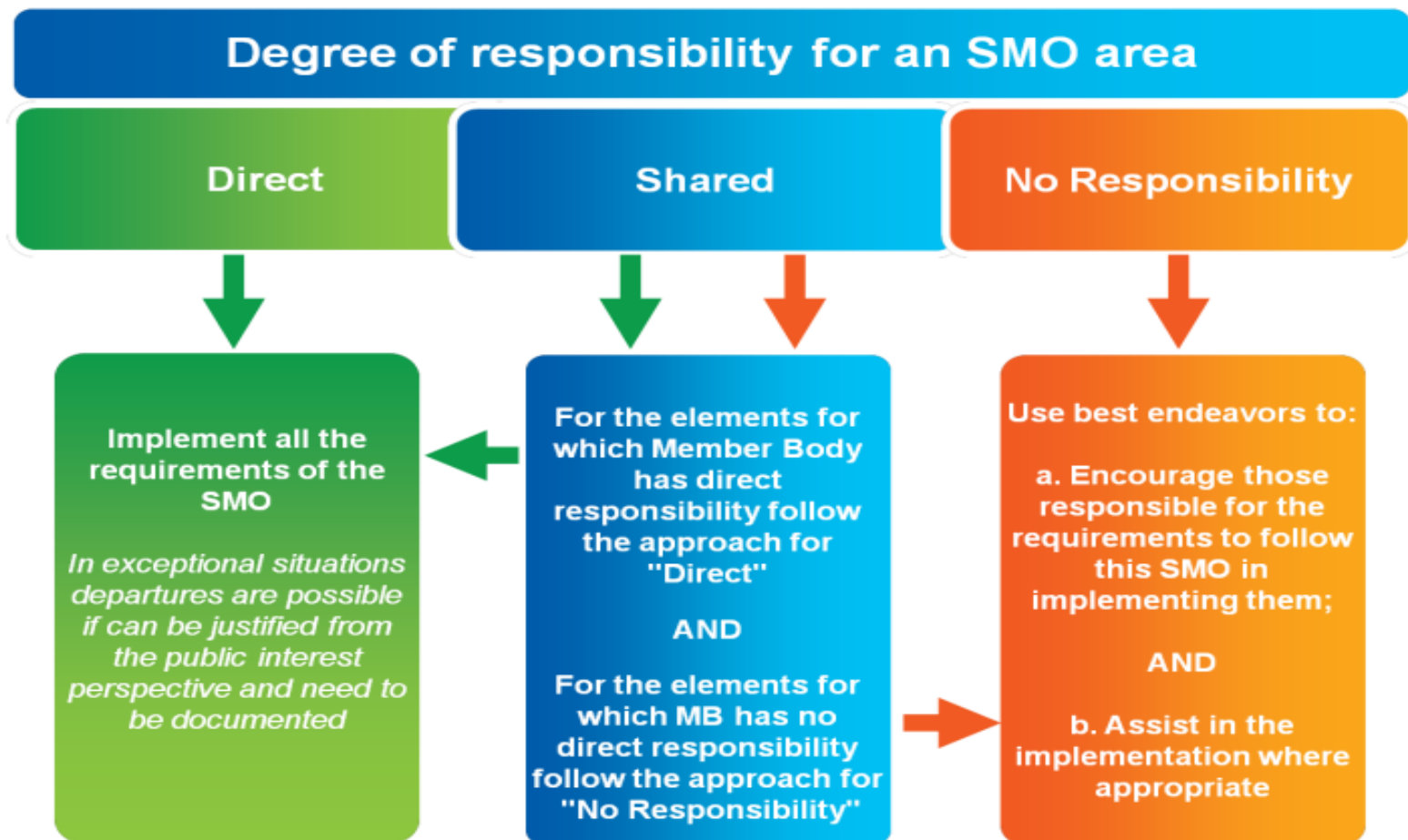
ICPAK is a member of International Federation of Accountants (IFAC) and is bound by the Statements of Member Obligations(SMOs).

SMO1 Quality Assurance

SMO1 sets out the requirements of an IFAC member body with respect to quality assurance review systems for its members who perform audit, review, other assurance and related services.

Why we carry out reviews

Diagram 1 Illustration of the Applicability Framework



Why we carry out reviews

As part of the measures the Institute has put in place to monitor compliance with professional standards and fulfill the requirement of Statement of Membership Obligation (SMO) 1, Council authorized the rolling out of the full-scale reviews of audit firms with effect from January 2006.

The reviews are conducted in accordance with the Audit Quality Review Framework launched in May 2004.

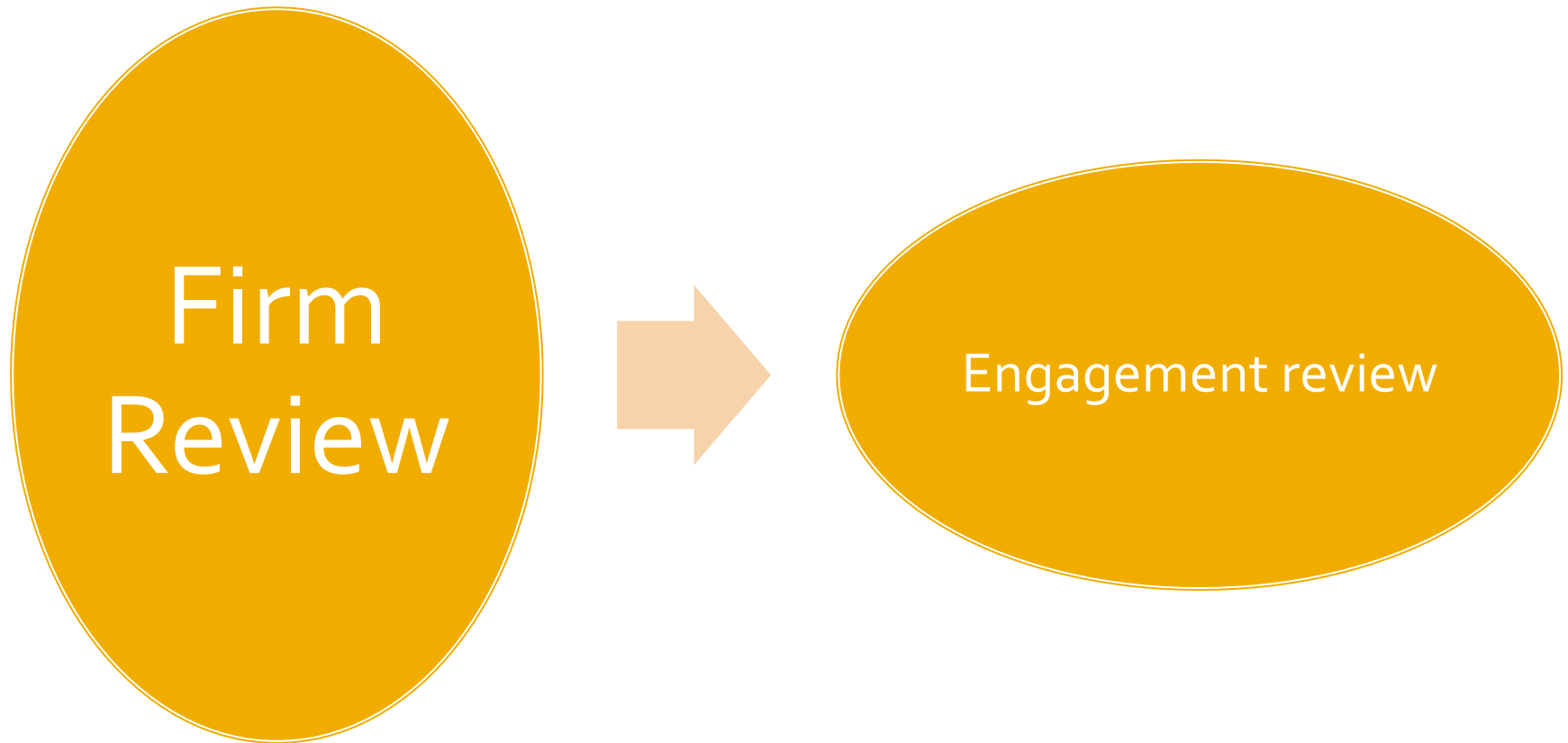


THE REVIEW PROCESS

The Review Process

- The review process is broken into two parts:
 - 1) **Firm review**- this focuses on review of the policies put in place to ensure quality control– the guiding framework is ISQC1 and ISA 220 upto 15th of December 2022 when ISQM 1 and 2 will take effect
 - 2) **Engagement review**- a file is picked and reviewed based on the applicable framework- *for audit this will be international audit standards and IFRS's for the financial statements review.*

The Review Process



Firm reviews

- This involves **review of documented firm policies**
- The policies are expected to be in line with the requirements of ISQC1(soon to change)
- All practicing firms are **required to document and implement a system of quality control in compliance with ISQC1**
- A test is done on the effectiveness of the controls contained in the policies.

ISQC1 requires documented policies on the following



1	Leadership Responsibilities for Quality Within the Firm	To describe the firm's responsibilities to promote an internal culture focused on quality control
2	Relevant Ethical Requirements	To provide guidance on the fundamental principles which define professional ethics
3	Acceptance and Continuance of Client Relationships and Specific Engagements	To provide guidance on the establishment of appropriate acceptance and continuance policies and procedures
4	Human Resources	To provide guidance on the human resource components of effective quality control policies and procedures
5	Engagement Performance	To provide guidance on the elements involved in engagement performance, highlighting the role of the engagement partner, planning, supervision and review, consultation, resolution of differences of opinion, and performance of engagement quality control review
6	Monitoring	To provide guidance on the monitoring of the firm's policies and procedures relating to the system of quality control, including the firm's monitoring program, inspection procedures, the monitor's report, addressing and removing deficiencies, and responding to complaints and allegations
7	Documentation	To provide guidance on the firm's requirements for documentation, both at the engagement level (including engagement quality control review) and for the firm's system of quality control

Engagement review



- This entails review of documentation of audit work as required by International Audit Standards ISAs
- Review of the audited financial statement audited to assess compliance with the reporting framework(Full IFRS or IFRS for SMEs)



ISQM 1 & 2 MAIN REQUIREMENTS

ISQM₁ requirements



- **This replaces ISQC 1 from the 15th of December 2022** – see below the new requirements and how they compare to ISQC1.
- (a) Governance and leadership (adapted from “leadership responsibilities for quality within the firm” in extant ISQC 1);
- (b) The firm’s risk assessment process (new);
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources (adapted from “human resources” in extant ISQC 1);
- (g) Information and communication (new); and
- (h) Monitoring and remediation process (adapted from “monitoring” in extant ISQC 1)

ISQM₁ requirements(continued)



A look at the new changes:

a) **The Firm's Risk Assessment Process**

ISQM 1 includes a new approach that focuses firms' attention on risks that may have an impact on engagement quality. ISQM 1 includes a component, the firm's risk assessment process, which comprises the process the firm is required to follow in implementing the risk-based approach to quality management.

The firm's risk assessment process is applied to the other seven components of the system of quality management, i.e., *the firm is required to use this process in establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses for the other seven components*

ISQM1 requirements(continued)

A look at the new changes:

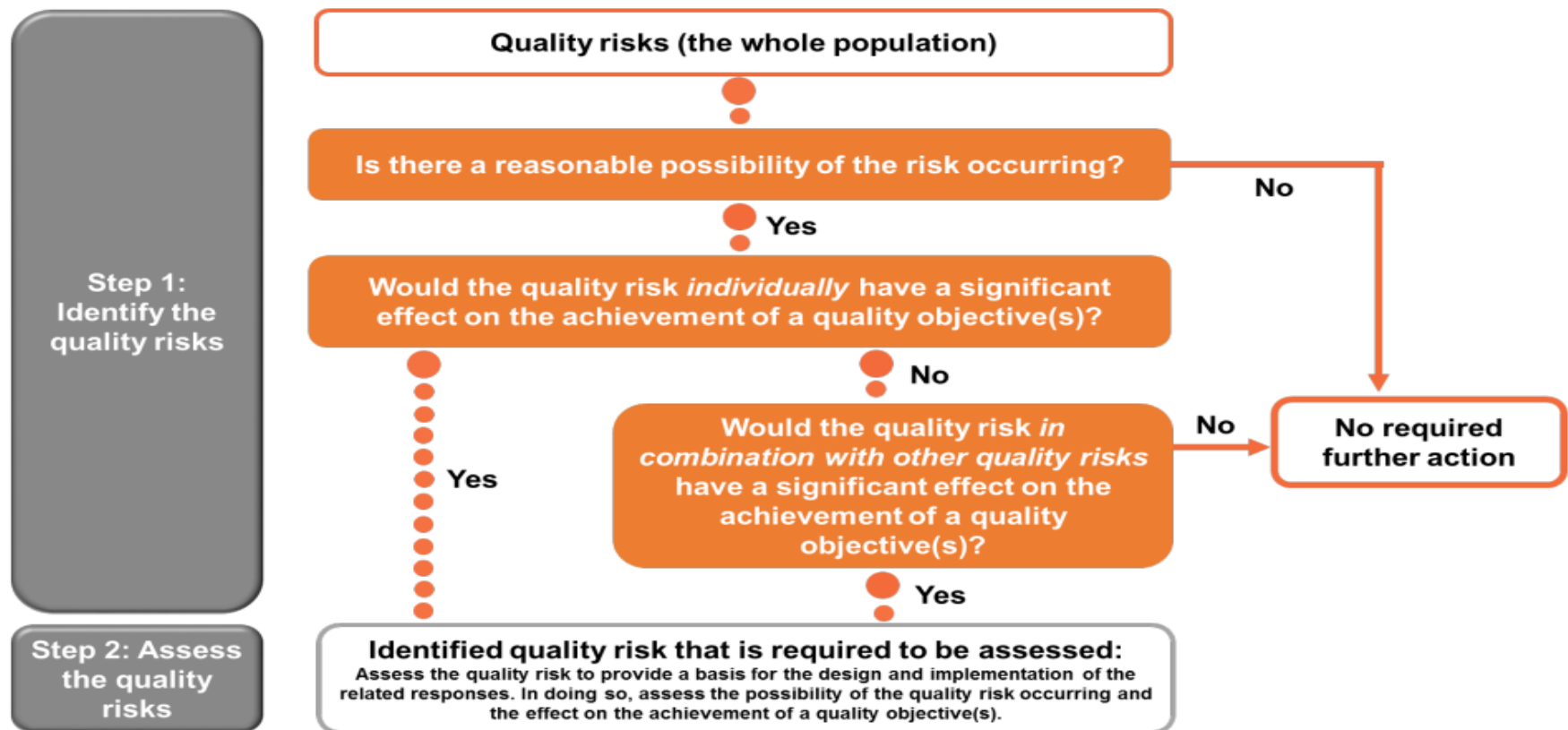
a) The Firm's Risk Assessment Process (continued)



ISQM1 requirements(continued)

A look at the new changes:

a) The Firm's Risk Assessment Process (continued)



ISQM₁ requirements(continued)



A look at the new changes:

b) Information and Communication

ISQM 1 introduces a new component, information and communication, which includes requirements for the firm to establish an information system and emphasizes the need for effective two-way communication within the firm, as well as the responsibility of all personnel for communication.

The new component also supports the firm in addressing the need for robust communication and interactions during the performance of engagements



ISQM2 requirements(cont'd)

This International Standard on Quality Management (ISQM) deals with:

- (a) The appointment and eligibility of the engagement quality reviewer; and**
- (b) The engagement quality reviewer's responsibilities** relating to the performance and documentation of an engagement quality review.

This ISQM applies to all engagements for which an engagement quality review is required to be performed in accordance with ISQM 1.1

This ISQM is premised on the basis that the firm is subject to ISQM 1. This ISQM is to be read in conjunction with relevant ethical requirements.



ISQM2 requirements(cont'd)

3. An engagement quality review performed in accordance with this ISQM is a specified response that is designed and implemented by the firm in accordance with ISQM 1.2 The performance of an engagement quality review is undertaken at the engagement level by the engagement quality reviewer on behalf of the firm

Scope of engagement quality reviews

ISQM 1 requires firms conduct an EQR on audits of listed companies, audits and other engagements where an EQR is required by law or regulations and audits or other engagements for which the firm determines that an EQR is an appropriate response to address one or more quality risks.

Examples of this include:

ISQM2 requirements(cont'd)

- I. Audits which involve a **high level of complexity or judgement** due to significant accounting judgements with high degrees of uncertainty, such as banks or oil exploration companies or where specialised skills and knowledge is required to evaluate underlying subject matter such as greenhouse gas emissions.
- II. Audits where **significant issues have been encountered**, such as a material restatement of comparatives.
- III. Audits or engagement for which **unusual circumstances** have been identified during acceptance and continuance procedures, such as a disagreement with the previous auditor.

ISQM2 requirements(cont'd)



- IV. Engagements involving reporting to be included in **regulatory findings** which may contain a high degree of judgement, such as a listing prospectus.
- V. Audits and engagements for which **the firm has no prior experience.**
- VI. The use of an EQR **to mitigate ethical threats identified.**
- VII. Audits and engagements for which **the firm has no prior experience.**
- VIII. The use of an EQR **to mitigate ethical threats identified.**

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ISQM2 requirements(cont'd)



Appointment and eligibility of engagement quality reviewers

To ensure the effectiveness of an EQR, it is important that the person performing the review is appropriate. ISQM 2 provides guidance on who is eligible to be appointed to this role:

- 1. An engagement quality reviewer ('reviewer') cannot be a member of the audit engagement team** so that they remain objective and independent of the audit. The reviewer needs to consider whether the audit team has applied appropriate professional scepticism.

A two-year cooling off period is required before an audit engagement partner can act as a reviewer for their former client.

ISQM2 requirements(cont'd)



Appointment and eligibility of engagement quality reviewers

1. **The reviewer must be competent and capable of performing** the role including understanding the legal and professional framework, firm policies relevant to the engagement and have an appropriate knowledge of the client industry.

They should have an understanding and experience of similar engagements and understand the responsibilities in performing and documenting an EQR.

ISQM2 requirements



- 3. Reviewers must have appropriate authority within the firm** to allow them to challenge the audit engagement partner. The culture of the firm should be one where the views of the engagement quality reviewer are treated with respect and not subject to influence or pressure from the audit engagement partner.
- 4. The reviewer must comply with relevant ethical requirements and the provisions of laws and regulations** relevant to the jurisdiction in which they are operating. In the same way that an audit partner may be impacted by intimidation by a client, and reviewer may be impacted by intimidation, for example if the audit partner for the client is aggressive or dominant individual or the reviewer has a reporting line to the engagement partner.
- 5. The reviewer may be a member of the audit firm or external to the firm.**



COMMON REVIEW FINDINGS

Common Review Findings

- I. **Lack of documented quality control policies-** this is a mandatory requirement for practitioners and should be put in place when one goes into practice and revised frequently to ensure relevance
- II. **Acceptance and continuance process documentation-** no documentation on how the acceptance or continuance process was carried out – for all engagements practitioners should ensure this is done
- III. **Lack of engagement letters or statement of work-** this is the document that sets out the role and obligations of each party and without it the practitioner is exposed

Common Review Findings(continued)

- IV. Lack of engagement letters or statement of work-** this is the document that sets out the role and obligations of each party and without it the practitioner is exposed
- V. Lack of proper checks on ethical requirements** – this was noted when auditors offered other services to their clients without considering independence requirements
- VI. Leadership involvement and responsibility** – the managing partner or practitioner takes the ultimate responsibility of the quality of work – they should be involved in guiding the teams

Common Review Findings(continued)

- VII. Lack of proper audit programme** – practitioners should ensure that for audit assignments there is an audit programme that will guide work to be done
- VIII. Lack of or poor documentation of audit evidence** – where practitioners have not ensured a proper file is done on pre- engagement activities, understanding the business, evaluating the entity level controls, fraud considerations , identifying risks and coming up with tests to address risks identified as per ISA's

Common Review Findings(continued)

- IX. Unsupported audit report-** where there is no evidence of sufficient work done- this may lead to inappropriate opinion
- X. Inappropriate audit opinions-** where changes to the opinion are not updated in the reports issued. Key audit matters inclusion for regulated entities – some practitioners do not include and there is no evaluation documentation as to how they concluded that there was no key audit matter(s)

Common Review Findings(continued)

- XI. Disclosure deficiencies in the financial statements-** practitioners to ensure compliance with IAS 1 and conceptual framework for primary financial statements and disclosures required in the notes for each balance including summary of policies- this should be as per the underlying framework either full IFRS or IFRS for SMEs
- XI. Little or no work done to challenge areas of management assumptions** and estimates
- XI. Failure to have an EQR for engagements** that significant areas of judgements and estimates



REVIEW REPORT CATEGORIES AND REMEDIAL ACTIONS

Reports

- After review, review queries are issued to the firm for response.
- Once responses are received, a review report is prepared and awarded a grade based on findings and shared to RQAC for approval
- AQA report ratings
 - i. A-Report
 - ii. B-Report
 - iii. C-Report
 - iv. D-Report

A-report

- There are no matters that need addressing and there are no conditions placed on the firm's audit work as well as whole firm procedures.
- Next review is after the next review cycle i.e., 3 years

B-report

- The overall quality of audit work was good, as were the whole-firm procedures. A few areas needing improvement and there were just a couple of isolated matters that impacted on the overall compliance with the Audit Regulations.
- The Institute has no concerns about the firm's ability and commitment to make the necessary improvements. A follow up review will be done after two years.

C-Report

- The quality of audit work is mixed. Some areas are good, but there are areas requiring improvement.
- There are significant documentation problems, there are some weaknesses with whole firm procedures and a follow up review will be done after one year or less than a year.

D- Report

- The quality of Audit work is generally poor, no firm procedures or policies in place no evidence of any audit work being done yet audit opinion is signed.
- The firm has poor attitude towards Audit Quality, conditions are placed on the firm's audit work,
- Disciplinary action may be taken.
- Follow up review will be done within six months.



THE END.

QUESTIONS & ANSWERS