

Common content of QAS methodologies

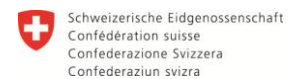
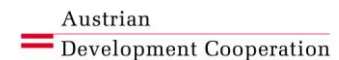
Accounting and Auditing Standards Community of Practice Workshop

Andrei Busuioc, CFRR

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Quality Assurance Methodology - core questions

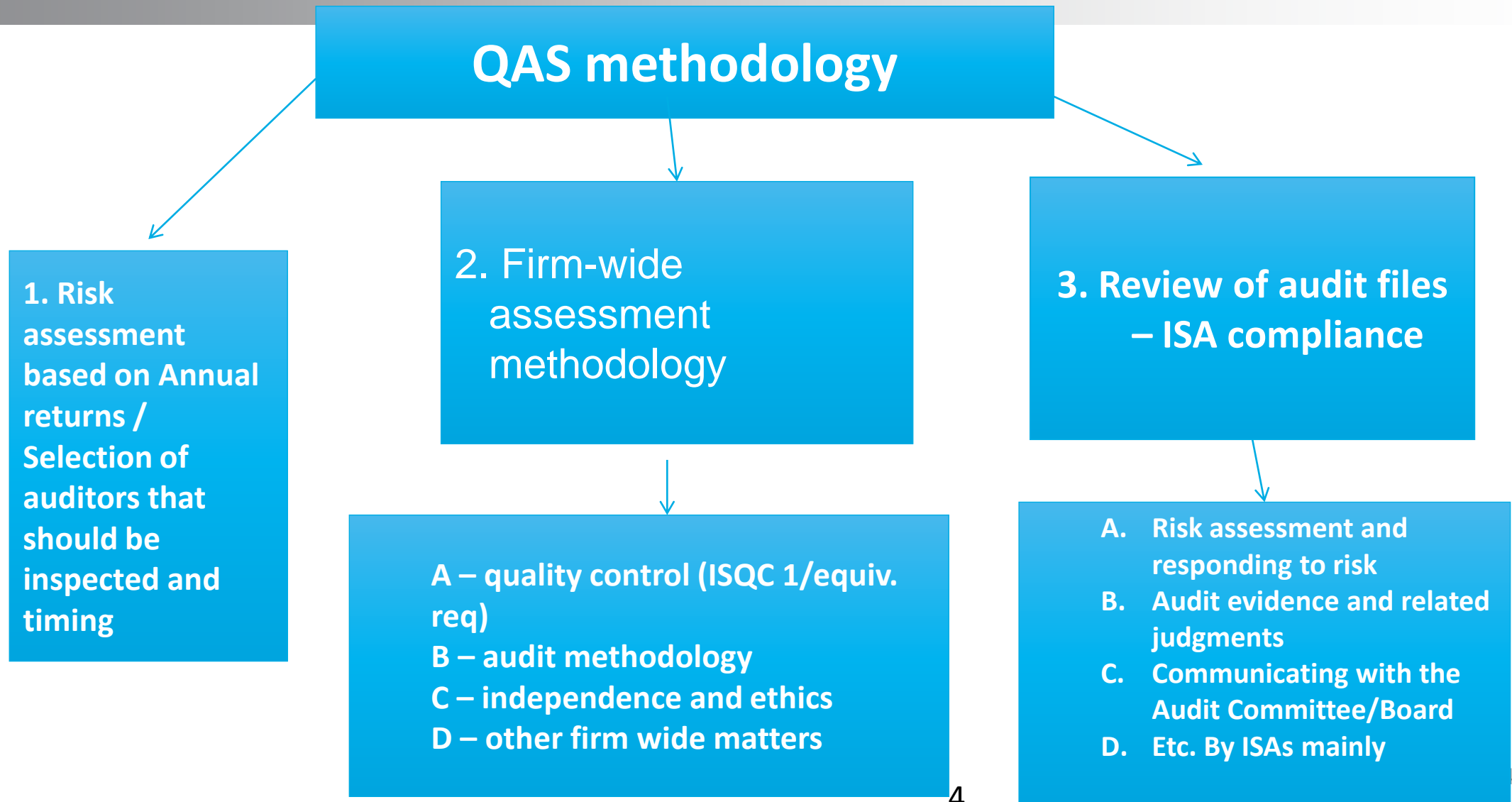
1. How to determine which auditors should be inspected and when?
2. Does the firm have adequate quality control arrangements (ISCQ1 or equivalent requirements based on the directive), audit methodology, procedures for independence and ethics, professional insurance, etc.?
3. Are the audits done properly in compliance with ISAs?



Lessons learnt from the Global Financial Crisis in 2008

- » **Absence of** the provision of adequate **warning signs** to the board and top management.
- » The more serious **shortfalls in corporate governance** were not related to technology and risk model construction but to the role of individuals, decision-making processes in general and the understanding and interpretation of risk models.
 - » Corporate governance model **did not perform** as it should have.
 - » Assurance functions **failed**.

QAS methodology chart





1. Selection of auditors that should be inspected and timing

» EU requirements:

- » Once in 3 years for auditors of PIEs
- » Once in 6 years for all other auditors

» Risk assessment based on Annual returns – to determine how frequently the firm should be inspected



2. Firm-wide assessment methodology

- » Example structure of firm-wide QC methodology
 - » A – QUALITY CONTROL (ISQC 1 or equivalent requirements)
<http://web.ifac.org/download/a007-2010-iaasb-handbook-isqc-1.pdf>
 - » B – AUDIT METHODOLOGY
 - » C – INDEPENDENCE AND ETHICS
 - » D – OTHER FIRM WIDE MATTERS



A - QUALITY CONTROL (ISQC 1 / equivalent requirements)

- » The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:
- (a) Leadership responsibilities for quality within the firm
 - (b) Relevant ethical requirements
 - (c) Acceptance and continuance of client relationships and specific engagements
 - (d) Human resources
 - (e) Engagement performance
 - (f) Monitoring



Extract from the methodology on ISQC1 (1)

» Does the firm have appropriate policies and procedures to cover each of the areas of ISQC1 and are these adequately documented:

Ascertain/update and evaluate the firm's policies and procedures in respect of quality control (addressing each of the key areas in ISQC1) and consider the adequacy of the firm's documentation of these policies and procedures and their communication to the firm's personnel.



Extract from the methodology on ISQC1 (2)

- » Leadership and strategy - is the firm's overall strategy/objectives consistent with audit quality being a primary consideration and do senior personnel ensure that this message is clearly understood by partners, staff and clients:
 - » understanding of the firm's vision/strategy/objectives (including how these are communicated internally) and to obtain an understanding of the overall governance structure of the firm;
 - » Consider the impact on the audit practice of any changes from the previous visit to the firm's vision/strategy/objectives, changes to the governance structure or changes in senior personnel;
 - » how the audit practice is influenced in practical terms by the firm's commercial objectives and what steps are taken to ensure that the conduct of audit work is not unduly influenced by commercial considerations. Consider the role of any non-executives with regard to the firm's quality standards. Consider any changes to the audit practice's strategy/objectives with regard to maintaining audit quality. Consider whether performance evaluation, compensation and promotion processes are designed to demonstrate a commitment to quality. Consider the results/actions from any client or staff feedback surveys.



Extract from the methodology on ISQC1 (3)

- » Human resources – does the firm have suitable and sufficient personnel to conduct high quality audits and appropriate procedures for performance evaluation and development:
 - » Recruitment and retention;
 - » Training/CPD;
 - » Technical competence, influence of commercial objectives over audit work; the role of any non-executives with regard to the firm's quality standards; whether performance evaluation, compensation and promotion processes are designed to demonstrate a commitment to quality; results/actions from any client or staff feedback surveys.



B - AUDIT METHODOLOGY

- » Audit procedures – to comply with ISAs, updated regularly, and
- » Communicated timely to partners and staff



C - INDEPENDENCE AND ETHICS

- » How does the firm ensure that the requirements of the [appropriate Ethical Standards/IFAC Code of Ethics] are understood and applied in practice
- » Has the firm considered and addressed specific areas of the ethical standards/code particularly with regard to PIE-audits



D - OTHER FIRM WIDE MATTERS

- » Professional indemnity insurance compliance
- » Has the firm considered its compliance with ongoing requirements for audit registration
- » Does the firm have an appropriate document retention policy and appropriate procedures to ensure that audit working papers are only destroyed in a confidential manner after the end of the retention period.



Review of audit files - ISA compliance (1)

- »A. Risk assessment and responding to risk
 - »Planning (ISA 300, 520)
 - »Assessing the risk of material misstatement (ISA 330, 315)
 - »Risk assessment procedures (ISA 315)
 - »Understanding the client and its business (ISA 315, 610)
 - »Significant risks (ISA 315, 240)
 - »Going concern and the recession (ISA 570)
 - »Materiality



Review of audit files - ISA compliance (2)

- » B. Audit evidence and related judgments
 - » Summary of audit evidence and responses to risks (ISA 330, 500)
 - » Judgments regarding accounting policies and financial reporting matters
 - » Audit evidence - tests of control (ISA 330)
 - » Ensuring all material areas are covered (ISA 330)
 - » Timing of substantive procedures (ISA 330)
 - » Analytical procedures (ISA 330, 520)
 - » Use of experts and detailed substantive testing (ISA 330, 620)
 - » Financial statements and consolidation (ISA 330)



Review of audit files - ISA compliance (3)

- » C. Communicating with the Audit Committee/Board (ISA 260, 240, 250)
- » D. Independence and ethics
- » E. Quality control and audit finalisation (ISA 520, 240, 320, 560, 580, 250, 545, 550, 570, 700, 701)
- » F. Group Audits- Reliance on other auditors (ISA 600)
- » G. Related party disclosures (ISA 550)
- » H. Laws and regulations (ISA 250)



Review of audit files - ISA compliance (4)

- » I. Service Organisations (ISA 402)
- » J. Opening balances and comparatives (ISA 510, 710)
- » K. Audit evidence – Stock (ISA 501)
- » L. Audit evidence - Litigation and claims (ISA 501)
- » M. Audit evidence - Long term investments (ISA 501)
- » N. Audit evidence - Segmental information (ISA 501)



Review of audit files - ISA compliance (5)

- » O. External confirmations (ISA 505)
- » P. Fair value measurements and disclosures (ISA 545, 315, 620)
- » Q. Transition to IFRS (if applicable)
- » R. Revenue
- » S. Costs
- » T. Intangible assets
- » U. Tangible assets



Review of audit files - ISA compliance (6)

- » V. Current assets
- » W. Current liabilities
- » X. Non-current liabilities
- » Y. Provisions
- » Z. Taxation



Review of audit files - ISA compliance (7)

- » Most of chapters are related to specific ISAs
- » Some are related to financial statements items – and methodology make a cross-reference to several related ISAs

Example of a part of ISA compliance methodology

Ref	Title	Description	ISA ref (if applicable)	Review Type	Guidance available	Generic
H	Related party disclosures		General			
1	Related party	Ensure that the audit team assessed the risk of material undisclosed related party transactions, or undisclosed outstanding balances between the entity and its related parties, existing.	ISA 550 (6-3)	File Review		Note that there are two versions of ISA 550, to be applied depending on whether the financial statements are prepared under IFRS (IAS 24 (1-17)) or UK GAAP (FRS8 (101-117)).
2	Related party	Ensure that appropriate audit procedures were performed regarding the completeness of the information provided by management identifying all known related parties and the completeness and accuracy of the information provided regarding related party transactions.	ISA 550 (7, 9)	File Review		
3	Related party	Ensure that the audit team assessed the adequacy of the disclosure of related party relationships and transactions in the financial statements and obtained appropriate audit evidence supporting these disclosures. Consider the following: Any limitations on the scope of audit work in this area; Any evidence of material undisclosed related party transactions or an undisclosed control relationship.	ISA 550 (8)	File Review		
4	Related party	Ensure that the audit team reviewed compliance with the requirements of IAS 24 or FRS 8 for disclosure in the financial statements of the name of the entity's parent and, if different, the ultimate controlling party.	ISA 550(14-3)	File Review		