



Audit monitoring visits – cycle 1 / cycle 2



Outline

- Recap on Cycle 1 monitoring – activities and findings
- 2016 – support between formal cycles
- Cycle 2 – visit programme
- Cycle 2 – what to expect

Recap on cycle 1 – activities and findings

- Review cycle 2013 to 2015 – everyone has experienced a visit
- Concentration on audit file reviews with an emphasis on understanding the approach adopted to referral audits
- High level review of whole firm (ISQC1) procedures
- Individual closing meeting notes and visit reports highlighting any areas for action before cycle 2
- Overall findings
 - Examples of good audit work – few thematic deficiencies
 - Areas where documentation of audit work undertaken could be improved
 - Some challenges around referral engagements

2016 – support between cycles

One to one discussions with firms this week to

- Reflect on cycle 1 findings / progress with follow-up actions arising as a result
- Update our understanding of any key changes within the firm (structures, staffing, policies and procedures etc) post cycle 1
- Discuss any specific issues concerning firms
- Ensure everyone is clear on the expectations for cycle 2

Cycle 2 - visit programme

- Monitoring commences May 2017
 - Legislation changes - visits formally cover firms
 - All firms visited over three year period - different yearly allocation to cycle 1
 - Visit duration reflects knowledge gained from cycle 1 / cycle 2 visit format
- Pre visit process
 - Notification – reasonable period
 - Updated QARs visit guide incorporating documents and records that must be available in advance (eg full list of clients in scope) / others available on-site.
 - Earlier pre visit telephone calls / discussion of clients information
- On-site visit format
 - Opening meeting
 - Fieldwork (cycle 2 format)
 - Closing meeting record – detailing key issues
 - Firms written response – 15 business days
 - Final report to CIIPA with recommendations as appropriate

Cycle 2 – what to expect

- More emphasis on ISQC1 whole firm procedures - key elements
 - Lead from the top giving consistent messages on quality control
 - Act ethically – in accordance with relevant standards etc
 - Accept only engagements where the firm is confident it can provide a service in compliance with the requirements
 - Recruit develop and support capable and competent staff
 - Deliver quality audits that comply with law regulations and standards consulting where needed
 - Monitor and seek continuous improvement of the firms quality control system - reminders

Cycle 2 – what to expect

- Are firms implementing (and documenting) appropriate ISQC1 procedures relating to referral arrangements?
 - Conducting initial due diligence on new relationships
 - Understanding and documenting how the firm conducting detailed audit work on the Cayman's firms behalf meets the requirements of ISQC1 / ISA 220 etc
 - Regularly obtaining internal / external / regulatory review results – eg, scope, findings applicable to Cayman audits, subsequent actions
 - Updating the above understanding as part of annual ISQC1 monitoring
- Challenges – network / non network firms

ISQC 1 requires firms to undertake monitoring

Reminders

- Requirement to monitor operation of quality control systems at least annually – can be done internally or externally
- Involves consideration of application of procedures throughout firm (including for referral audits), for example
 - Ensuring audit programmes are up to date (including specialist areas)
 - Checking staff have completed declarations and action taken on threats
 - Appropriate training undertaken by all relevant individuals

ISQC 1 requires firms to undertake monitoring

Reminders

- Involves implementing inspection cycle policy – reviewing a selection of completed audit files (cold file reviews)
 - Not by someone connected to the audit (challenges for sole practitioners)
 - At least one engagement for each engagement partner
 - ISQC 1 gives example of cycle spanning three years
 - Need to consider complete coverage of referral engagements including referring firm's work and Cayman role (AICPA review limitations)
 - CIIPA regulatory reviews do not satisfy ISQC 1 monitoring requirement
- **Results reported and action plans drawn up to correct deficiencies**

Areas of focus for cycle 2 – what to expect

- Visits will discuss / review firms documentation of relevant policies and procedures
- Visits will review a sample of relevant whole-firm records eg:
 - Training materials / CPD
 - Declarations
 - Appraisals
 - Annual monitoring – checklists / reports / action plans / communications
- *Possible reperformance of completed cold file reviews Using individual file detailed checklists / review findings to reperform (either year subject to review or subsequent year)*

Areas of focus for cycle 2 – what to expect

- Audit file reviews – more in depth than cycle 1
 - Looking at key areas of selected audits
 - The file review process includes
 - Recording detailed queries / findings and discussing these with each Engagement Partner
 - Asking Engagement Partners to provide a written response to queries / findings during the visit
 - Seeking to establish if any deficiencies arise because audit evidence was lacking or because the evidence obtained was not recorded
 - We will clearly indicate how each point has been closed down and conclude whether there are:
 - Significant instances of non compliance with auditing standards, disclosure requirements or any other matters;
 - Minor areas to be addressed in future
 - Significant matters will be carried forward to the closing meeting / overall visit conclusion – this ensures there are no ‘surprises’ for the firm at that meeting

Areas of focus for cycle 2 – what to expect

- Audit file reviews cont:
 - Formal review of underlying detailed work on selected referral engagements as well as assessment of Cayman firm's own timely involvement in key aspects of the audit process
 - Firms will need to ensure reviewer access to detailed audit working papers on referral engagements selected for review
 - Recap on referral audit interaction with ISAs / specific observations from cycle 1 to follow
- Numbers of engagements selected - approach based on circumstances / risks / knowledge gained in cycle 1 / any reliance from reperformance of firm's own reviews

Referral engagements

Companies whose management and operations are located in a different jurisdiction to that of the companies legal registration

Typical arrangement

- Majority of audit work done by firm/office where management / operations located
- Audit report signed by another firm located in the company's legal jurisdiction (eg Cayman)

Types of audit referral relationships include

- Referral engagements within / outside a network
- Sign-offs for multiple unrelated firms

Increasing focus of regulators worldwide



How do you apply ISAs to referral engagements?

- Group audits (consolidation / parent company / components being audited)
 - Apply ISAs with particular reference to ISA 600 - special considerations for groups
 - Not considered further today
- Mind-set for non-group referral audits (eg only one component)
 - Vast majority of referral audits seen in cycle one fit into this category
 - Mindset- apply the ISAs as though the audit is done entirely by the Cayman firm / office
- Some key ISAs to consider
 - ISA 220 Quality control for audits of historical information
 - ISA 230 Audit documentation

Referral engagements – ISA 220 (1)

- ISA 220 requirements mainly apply to the engagement partner
 - Engagement partner defined as
 - The partner who is responsible for the audit engagement and its performance, and for the auditors report that is issued on behalf of the firm, and who, where required has the appropriate authority from a professional , legal or regulatory body
 - Firms need to set up procedures so that the engagement partner is sufficiently involved in the audit – demonstrating responsibility for overall quality
 - For all referral engagements we have seen in cycle one - this is the Cayman partner

Referral engagements – ISA 220 (2)

ISA 220 engagement partner requirements

- Leadership responsibilities
- Relevant ethical requirements
- Acceptance and continuance
- Assignment of engagement teams
- Engagement performance – direction supervision and performance
- Documentation

Referral engagements – ISA 220 (3)

The acceptance and continuance process

- Consider
 - Have appropriate procedures been followed - including assessing the integrity of the client?
 - Are conclusions reached appropriate?
 - Do terms of engagement explain who is responsible for what
- Observations from cycle 1
 - Lack of evidence of Cayman firm challenge / involvement at the right time in decision making process
 - Engagement letters not always sent from Cayman firm or clearly explaining Cayman firm engagement partner audit responsibilities
 - Good practice seen - Cayman firms undertaking and documenting their own fully separate review of acceptance and continuance

Referral engagements – ISA 220 (4)

Relevant ethical considerations

- Consider
 - Do the performing team understand **the applicable** ethical requirements and are they independent of the client?
 - Not just limited to the audit team – could there be wider independence issues
 - Written confirmations / conclusions
- Observations from cycle 1
 - Generally not identified as an issue in cycle 1
 - Subject to more detailed consideration in cycle 2

Referral engagements – ISA 220 (5)

Assignment of engagement teams

- Consider
 - Is the performing team competent to perform the assignment?
 - General competence / capabilities – recruitment and training
 - Understanding of applicable reporting framework
 - Specialist skills / industry knowledge / use of experts
- Observations from cycle 1
 - Few contra indicators on competence of engagement teams from high level reviews
 - Limited evidence of formal assessment by Cayman team / engagement partner
 - Often covered in inter office style reporting documentation

Referral engagements – ISA 220 (6)

Engagement performance – direction, supervision and performance responsibilities

- Consider
 - Planning – is the extent of engagement partner involvement sufficient?
 - Planning documentation, key risks, materiality and planned audit approach
 - Documented approval to performing firm before the audit starts
- Observations from cycle 1
 - Lack of timely involvement – educating referring firms to engage at the right time
 - Documenting extent of involvement (including engagement team / fraud discussions etc)

Referral engagements – ISA 220 (6)

Engagement performance – direction, supervision and performance responsibilities

- Consider
 - Is there clear evidence of appropriate and timely engagement partner review of work performed?
 - Critical areas of judgement / significant risks
 - Other areas engagement partner considers important
 - Are the extent and timing of reviews including key discussions held between the two firms appropriately documented?
- Observations from cycle 1
 - Substance of Cayman partner involvement not clear (particularly where there are potentially contentious issues)
 - No record of what has been reviewed in Cayman

Referral engagements – ISA 230 documentation



Needs to be sufficient to enable an experienced (third) auditor to understand the audit procedures performed, the audit evidence obtained and any significant professional judgement applied

Referral engagements – documentation

Para 8 - The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:



- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Referral engagements – documentation



Para 9 - In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- (a) The identifying characteristics of the specific items or matters tested;
- (b) Who performed the audit work and the date such work was completed; and
- (c) Who reviewed the audit work performed and the date and extent of such review.

Referral engagements – ISA 230

- What does this mean for referral engagements?
 - Requirements of ISA 230 remain – must comply
 - How this is done can vary
 - Integrated / separate audit file?
 - Stand alone Cayman file?
 - Integrate with files of firm / office conducting detailed work?
 - Clear evidence of engagement partner involvement?
 - Access to / interaction with detailed files?
 - Location of detailed files?
- For sample selected ICAEW reviewer access required to all elements of the audit file (including detailed work undertaken by referring firm).

Referral engagements - summary

- Engagement partner must take overall responsibility for the audit
- Set up procedures to ensure the engagement partner is sufficiently involved in the audit
- Decide how best to meet audit documentation requirements
- Ensure appropriate access available for monitoring







A world leader
of the accountancy
and finance profession