

Quality Assurance Review System Thematic Review Report

7 November 2020

Contents

Introduction	2
a. Annual Reporting by Firms.....	3
b. Risk management and preparation for ISQM1 & 2	3
c. Firm’s engagement/client risk rating criteria	4
d. The Private Funds Law of the Cayman Islands.....	5
e. Business Continuity in the advent of the COVID-19 pandemic	5

Introduction

In 2020 CIIPA conducted its first Thematic Review of Public Practice Firms. Since before the launch of the Quality Assurance Review System in 2013 and particularly prior to the enactment of the legislation to provide for the system in 2016, CIIPA has consulted with firms on a direct basis. In addition, the CIIPA Quality Committee represents a cross section of firm profiles which enhances CIIPA’s understanding of the firms’ approach and needs in relation to quality assurance.

However, 2020 brought a number of challenges and new circumstances and CIIPA resolved to conduct a review of every firm directly in relation to the following:

- a. Annual Reporting by Firms
- b. Risk management and preparation for the new standards ISQM1 & 2
- c. The Firm’s engagement/client risk rating criteria
- d. The newly enacted Private Funds Law of the Cayman Islands
- e. Business continuity in the advent of the COVID-19 pandemic

There are currently 45 registered public practice firms, ranging from sole practitioners to large firms that are part of international networks.

7 November 2020

a. Annual Reporting by Firms

In 2020 CIIPA revised its annual Firm Renewal Form. This was to gather aggregate data from firms on an annual basis to assist CIIPA with its risk assessment process and scheduling of quality assurance reviews.

The Review Body appointed by CIIPA (ICAEW) uses this information to plan the review visits and the information submitted is discussed during the previsit calls and throughout the visit.

This annual data is needed to inform CIIPA's risk-based approach. It should also be made clear that the firms' engagement information is available to the CIIPA office and to the Review Body but not to the Quality Committee that oversees the Quality Assurance Review Process.

The Renewal Process has commenced and based on the Thematic Review CIIPA anticipates good and timely data to be submitted as a result.

b. Risk management and preparation for ISQM1 & 2

Risk management by firms is increasingly important, not least since it is a significant element of the newly issued International Standards of Quality Management 1 & 2.

As part of the Thematic Review CIIPA sought information from firms on their risk management and development towards the new standards. The standards have been on the horizon for some time and at the time of the Thematic Reviews the proposed effective date was not known which CIIPA concluded was a reasonable explanation for why firms were at various stages of preparation.

The status of development towards the new standards across firms at the time of the review is as noted in Figure 1.

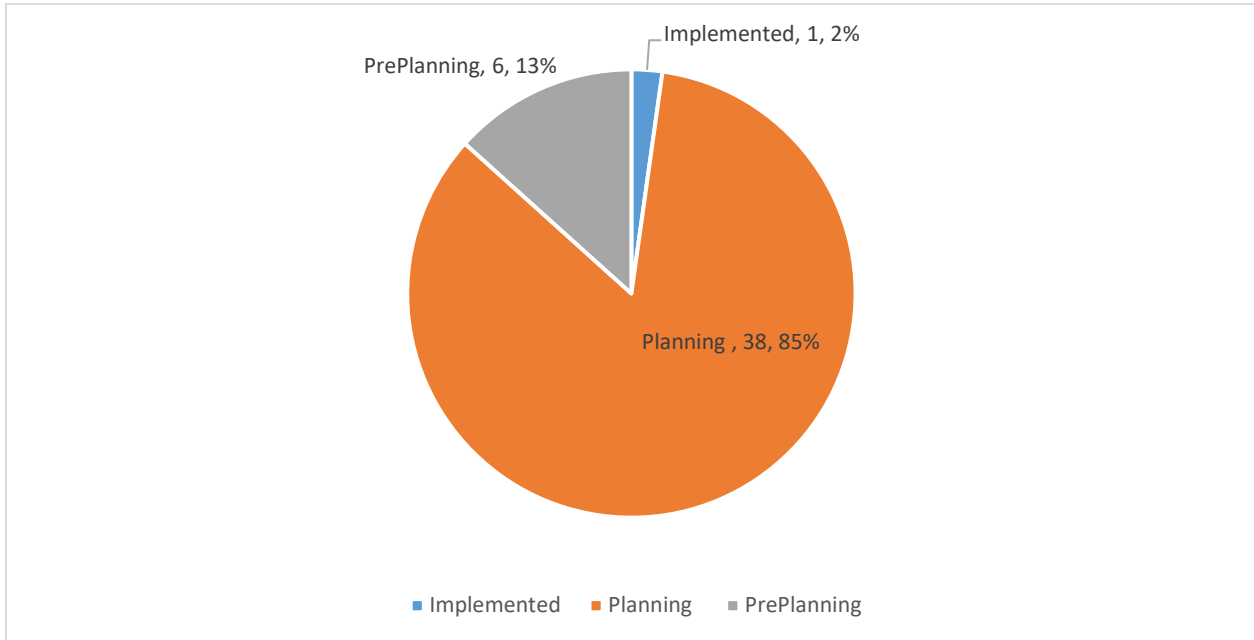


Figure 1: ISQM1&2 Status

For CIIPA, the discussion was important to ensure all firms were at least aware of the exposure drafts and the timeframes, which at the time of the calls was not clear.

The International Auditing and Assurance Standards Board approved the new and revised set of quality management standards for auditors near the end of September 2020 effective December 2022.

c. Firm’s engagement/client risk rating criteria

CIIPA also solicited information from firms regarding their methodology in relation to engagement risk assessments. The risk of an engagement affects the audit methodology, the application of standards and is reported to CIIPA prior to a visit to inform CIIPA’s file selection. It is thus important to understand and be assured regarding the firms’ methodology.

The Review indicated that most firms have a sound understanding of risk and the factors. The methodology may be driven by international networks or parent firms but in those cases the firms apply their own risk factors to reflect the Cayman environment and the types of entities being audited. At present there are no significant divergencies in methodology by any firms.

CIIPA will continue to keep this area under review and may conduct a specific, more detailed review or test more closely as part of the future scheduled visits including to acquire an understanding of the sector as a whole and how higher risk business is addressed by the firms.

d. [The Private Funds Law of the Cayman Islands](#)

On 7 February 2020, the Cayman Islands Government enacted the Private Funds Law, 2020 which provides for the registration of certain closed-ended funds (termed "private funds") with the Cayman Islands Monetary Authority ("CIMA"). Private funds are required to file audited accounts with CIMA and the audit must be performed by an approved auditor licensed by CIIPA. Overall, all firms are expecting growth as a result of the new requirement for Private Funds to be registered by the Cayman Islands Monetary Authority and audited by an approved auditor. It was thus expected that new licences will be required by most existing firms with an increase in licences issued by CIIPA of around 20%.

CIIPA met with the Cayman Islands Monetary Authority to discuss the implications of the Private Funds Law with respect to the impact on existing firms who are CIMA approved auditors. Information gateways exist in the Accountants Law to enable CIIPA to provide certain information to CIIMA regarding CIIPA quality assurance process.

e. [Business Continuity in the advent of the COVID-19 pandemic](#)

A national lockdown was enforced in the Cayman Islands in a period that coincided with filing deadlines of March 31 and June 30. CIIPA was thus concerned to ensure that business continuity plans of firms had been effective. Firms were asked to describe:

- The impact of COVID-19 on existing business in the period March 2020 to August 2020, and
- The impact of COVID-19 on its plans for growth as applicable.

Overall, almost all firms reported no adverse impact and effective operation of business continuity arrangements including information technology solutions. It became clear that the audit profession in the Cayman Islands, operating as it does in mostly international markets, suffered less impact than other

sectors. Connectivity was vital to the business continuity plans with staff working remotely, and in the event it had performed adequately.

In Figure 2: Impact of COVID-19 below the impact is presented.

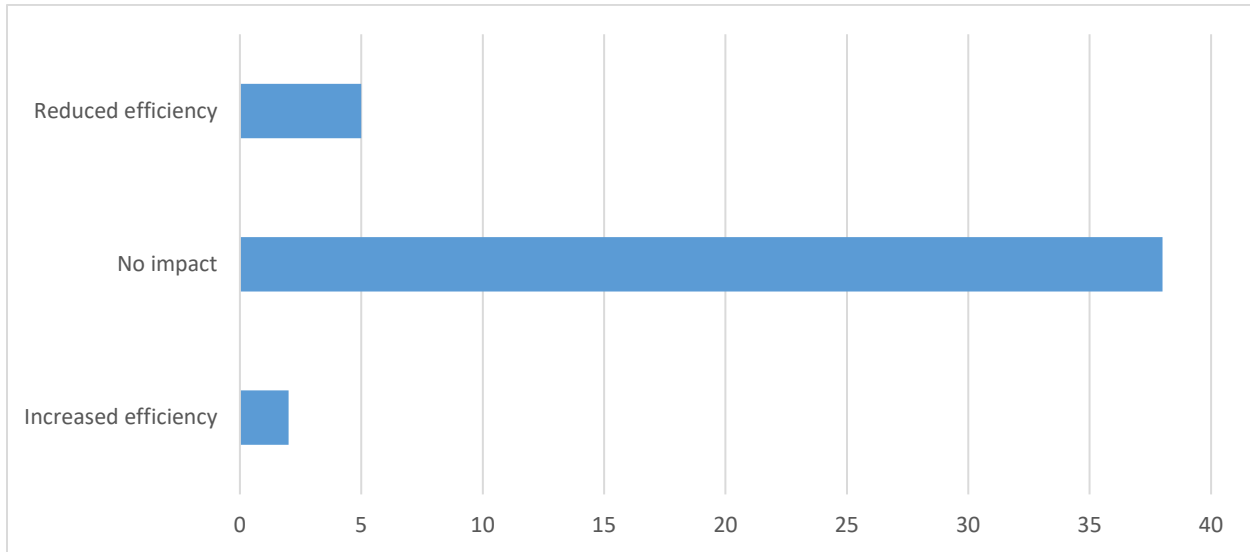


Figure 2: Impact of COVID-19

Firms were reminded to ensure that timely internal monitoring include focus on the period of disruption and ensure remediation in the event of quality failings.