

ARE YOU READY FOR PRACTICE MONITORING?

ICAB is about to launch a practice monitoring programme which will involve all firms being subject to inspection visits. These visits are also referred to as audit monitoring visits or quality assurance visits.

The principal purpose of these visits will be to assess the extent to which a firm complies with auditing standards and International Standard on Quality Control Number 1 (ISQC1). The visits will include a review of the firm's quality control policies and procedures and an examination of a number of completed audits.

If you are a partner, director, or sole proprietor of an accounting firm you should be asking yourself the question: are you ready for practice monitoring?

Why is the institute launching this programme?

The institute is launching this programme of monitoring visits for two reasons.

First, ICAB, like all prestigious professional accounting bodies worldwide, is a member of the International Federation of Accountants (IFAC). IFAC requires its member bodies to adopt robust standards in the regulation of the accountancy profession and has issued a number of Statements of Membership Obligation (SMO) which member bodies must implement. SMO1 entitled "Quality Assurance" requires member bodies to implement a programme of audit monitoring visits.

Second, a number of professional accounting bodies and national regulators have long-established audit monitoring programmes which were designed to strengthen the auditing profession. For example, the American Institute of Certified Public Accountants' peer review programme was one of the first audit monitoring programmes ever established, with the UK and many other countries following closely behind. In the aftermath of the Enron debacle, particular attention was paid to strengthening existing audit monitoring programmes and many countries that did not previously have such programmes decided to establish their own. As a result, most economically successful jurisdictions now have a programme of audit monitoring in place and those that do not are generally considered to be weak in terms of audit quality. To inspire confidence in the quality of audit in Barbados – and consequently confidence in financial reporting – ICAB needs to implement audit monitoring.

How is the institute implementing audit monitoring?

ICAB is participating in the regional monitoring programme established by the Institute of Chartered Accountants of the Caribbean (ICAC). Under this regional programme, the Association of Chartered Certified Accountants will provide monitoring services to ICAB, using specialist and experienced ACCA staff. In addition to ICAB, the institutes in Trinidad, Guyana, and Jamaica are also likely to participate in the regional monitoring programme. The decision to work with ACCA was taken on the basis that ACCA has considerable experience and expertise in this area.

ACCA has been licensing and regulating audit firms in the United Kingdom and Ireland under legislation passed by the governments of those countries for almost sixteen years.

During that time ACCA has developed an audit monitoring system which is designated to assess compliance with auditing standards and ISQC1.

ACCA licenses and regulates over 3,000 audit firms in the United Kingdom and Ireland and undertakes over 600 monitoring visits each year. Its expertise in monitoring is demonstrated by the fact that it is contracted to undertake monitoring visits for the Botswana Institute of Accountants, the Institute of Certified Public Accountants of Cyprus, the Institute of Certified Public Accountants of Kenya, the Audit Commission in England and the Law Society. Under these arrangements it is only the monitoring visits that are outsourced to ACCA with the outsourcing entities keeping licensing and all other aspects of regulation in-house. This will also be the case in the proposed arrangement between ICAB and ACCA.

So how exactly will the arrangement work?

In undertaking the audit monitoring visits, ACCA will be acting as an agent for ICAB and will report the results of the visit, together with recommendations, to the firm. ACCA's responsibilities will be to examine and assess a firm's compliance with rules and standards and report on these matters, together with recommendations.

To undertake monitoring visits in the Caribbean, ACCA will recruit a suitable person to appoint as its Caribbean based practice reviewer. The individual will have an excellent understanding of auditing practice and be able to communicate orally and in writing to a high standard. The practice reviewer will report to ACCA's Global Assurance Manager in London. The practice reviewer will be accompanied by other practice reviewers based elsewhere when undertaking monitoring visits to larger firms in Barbados or to those that audit specialised industries.

What does a monitoring visit entail from the point of view of an audit firm?

When a firm is selected for a monitoring visit, it will be notified by ICAB and receive a pre visit questionnaire which is designed to elicit sufficient information from the firm regarding its organisation and its audit client base to facilitate the planning of the monitoring visit. After the pre visit questionnaire has been completed and returned by the firm, the ACCA practice reviewer will telephone the firm to discuss its contents and finalise the planning of the visit.

On the day the visit starts, the practice reviewer will hold a meeting with the audit principals of the firm. The purpose of that initial meeting will be to:

- ascertain and understand how the firm is organised and operates
- ascertain and understand the quality controls established by the firm to ensure audit work is performed in accordance with auditing standards

After the initial meeting, the practice reviewer will select a sample of audit files for inspection. The selection will be made to ensure the work of all audit principals is inspected and will concentrate on the larger more complex audits. The practice reviewer will document his/her review and will summarise the audit work performed and identified instances of non-compliance with auditing standards.

Having completed the review of audit files the practice reviewer will conduct the closing meeting which is an extremely important part of the monitoring visit. The purpose of the closing meeting is to:

- inform the firm of all matters arising from the visit, identifying deficiencies in work and non-compliance with auditing standards
- give the firm the opportunity to clarify or rebut any of the points raised
- enable a discussion to take place as to how the firm should deal with deficiencies and areas of non-compliance in the future

After the visit the practice reviewer will prepare a report on the monitoring visit which will list any deficiencies and instances of non-compliance noted, together with recommendations. This report will be made available to the firm within a few weeks of the visit. Where deficiencies are found to exist, ACCA or ICAB may ask the firm to confirm what corrective action it proposes to take to rectify the situation.

How can audit firms and ICAB be confident that the report issued is accurate and reliable?

While everyone makes mistakes, the accuracy and reliability of monitoring visit reports are crucial in any system of monitoring. ACCA will ensure this is the case through the following:

- the practice reviewer appointed will have demonstrated through past experience and the recruitment interviews that they have the technical skills to make the appropriate professional judgment
- the practice reviewer will undertake 3 months of training within the Practice Monitoring Department based in London. During that time he or she will undertake, under supervision, monitoring visits to ACCA's UK firms
- all monitoring visit reports and working papers will be subject to a detailed review by another practice reviewer, before they are issued
- the practice reviewer will be accompanied on monitoring visits by senior personnel from the Practice Monitoring Department from time to time

What regulatory action will ICAB take if an audit firm is found not to comply with auditing standards?

It is entirely understandable for audit firms to be wary or even fearful of monitoring because of the possibility that ICAB may take regulatory action if the outcome of the visit is unsatisfactory. These fears are, however, largely unnecessary as ICAB has indicated that it intends to adopt an 'educational' and progressive approach similar to that used by ACCA in the UK and Ireland.

This approach involves taking no regulatory action at all if a firm has an unsatisfactory outcome to its first monitoring visit because of its failure to comply with auditing standards. Instead, the approach involves persuading and encouraging the firm to make the necessary

improvements and providing guidance to do so at the closing meeting of the monitoring visit. The firm may, however, in the interests of responsible regulation, be asked to confirm how it will amend its procedures to ensure that improvements will be made and it may receive a further monitoring visit well ahead of the normal 6 year routine, monitoring cycle to confirm that the improvements have indeed been made.

Even where a firm fails to make the necessary improvements, the regulatory action that is normally taken by ACCA in the UK and Ireland is not disciplinary in nature. Instead, ACCA requires the firm to take further remedial action, including undergoing audit training and using the services of a consultant to conduct “hot” and “cold” reviews. It is likely that ICAB may adopt a similar approach.

How do I learn more?

ICAB appreciates that practising members and firms will need more information to properly prepare them for the commencement of audit monitoring. Consequently, ICAB will arrange a seminar for partners, directors and sole proprietors of accounting firms at which a representative of ACCA’s Practice Monitoring Department will explain in more detail how monitoring visits will be structured, how audits will be reviewed and how the outcome to visits will be assessed to be satisfactory or unsatisfactory.

Summary

The above summarises ICAB’s proposed approach to audit regulation and how ACCA will conduct monitoring visits on its behalf.

ICAB’s intention to outsource the monitoring function to ACCA makes sense given ACCA’s experience and expertise in monitoring. Both bodies have co-operated very successfully in the past, as evidenced by the Joint Examination Scheme.

The monitoring approach that will be adopted is intended to assist and encourage those firms that have difficulty in demonstrating compliance with standards, to comply in future. Consequently, every firm that is willing to make the necessary efforts to improve has nothing to fear from the introduction of audit monitoring.