

Workshop on Quality Assurance Techniques

Selected whole firm procedures

Selection and Review of Audit Engagements

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Introduction (1)

Performing an inspection

→ Whole firm procedures

→ Engagement Reviews

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Introduction (2)

Selected whole firm procedures

→ Leadership Responsibilities

→ Human Resources

→ Independence and Ethics

Selection and Review of Audit Engagements

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Leadership Responsibilities

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Leadership Responsibilities

Content of Session

- ISQC 1 requirements
- Applying and complying with requirements (Promotion of a quality-oriented culture)
- Relevant firm policies and procedures
- Relevant inspection procedures

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Leadership Responsibilities

ISQC 1 Requirements

- Policies and procedures designed:
 - To promote internal culture recognizing quality is essential in performing engagements
- Responsibility for Quality Control is with CEO, managing board of partners or equivalents

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Leadership Responsibilities

ISQC 1 Requirements

- Persons assigned operational responsibility for QC should have:
 - Sufficient and appropriate experience and ability
 - Necessary authority to assume that responsibility

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Leadership Responsibilities

Promotion of a quality-oriented culture

- Significantly influenced by the firm's leadership and examples it sets
- Overriding requirement of firm business strategy
 - To achieve quality in all engagements

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Leadership Responsibilities

Promotion of a quality-oriented culture

- Leadership actions and messages emphasize QC policies and requirement to:
 - Perform work that complies with professional standards and legal and regulatory requirements
 - Issue reports appropriate in the circumstances

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Leadership Responsibilities

Promotion of a quality-oriented culture

- Actions and messages encourage culture that recognizes and rewards quality work
- Actions and messages communicated by but not limited to:
 - Training seminars and meetings
 - Formal and informal dialogue
 - Mission statements
 - News letters or briefing memoranda

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Leadership Responsibilities

Promotion of a quality-oriented culture

- Actions and messages that will reinforce the firm's view on the importance of quality incorporated in:
 - The firm's internal documentation
 - Training materials
 - Partner and staff appraisal procedures

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Leadership Responsibilities

Firm's Business strategy

- Policies and procedures for performance evaluation, compensation and promotion (including incentive systems)
- Management responsibilities so that commercial considerations do not override the quality of work performed
- Provision of sufficient resources for development, documentation and support of QC policies

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Leadership Responsibilities

Assigning Operational Responsibilities for Firm's QC

- Experience and ability enables responsible persons to
 - Understand QC issues
 - Develop appropriate policies and procedures
- Necessary authority enables responsible persons to
 - Implement those policies and procedures

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Leadership Responsibilities

Relevant Firm Policies/Procedures

- In which way is quality recognized in the firm's strategy?
 - Quality defined as a key objective
 - Pointed out in operations manual
 - Membership agreement including a commitment to quality
 - Experienced and knowledgeable leaders in Risk Management and Quality Control
 - Definition of appropriate reporting lines
 - Audit methodology that is kept up to date

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Leadership Responsibilities

Relevant Firm Policies/Procedures

- In which way is quality recognized in the firm's strategy? (cont'd)
 - Globally organized monitoring system
 - Persons available to take initiative in quality issues
 - Quality included in values statements, code of conduct, training materials and communications

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Leadership Responsibilities

Relevant Firm Policies/Procedures

- How is quality reinforced in communications?
 - Importance of Audit Quality pointed out in communications from the firm's management
 - Communications kept up to date on a frequent basis
 - Focus on the important role of audit professionals
 - Concepts of integrity, independence, professional skepticism and accountability addressed to the public

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Leadership Responsibilities

Relevant Firm Policies/Procedures

- How is quality included in other policies/processes?
 - Quality elements as part of job descriptions
 - Quality incorporated in performance evaluation and compensation (incentive systems)
 - Part of monitoring processes and communications of monitoring results

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Leadership Responsibilities

Relevant Inspection Procedures

- Objectives:
 - To conclude whether actions and messages of firm's management demonstrate a commitment to audit quality and compliance with professional standards and applicable legal and regulatory requirements in the performance of audits, issuance of audit reports and related matters concerning public interest entities

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Leadership Responsibilities

Relevant Inspection Procedures

- Interviews of firm CEO, Audit Leader and others assigned operational responsibility for the firm's QC
- Review code of conduct and documents relating to monitoring and evaluating audit quality
- Review descriptions of duties and relationships between the firm's staff and leadership

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Leadership Responsibilities

Relevant Inspection Procedures

- Read results of surveys of clients and staff
- Review audit and other service proposals for public interest entities
- Review internal and external communications from leadership
- Review agendas and minutes of firm board of directors

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Leadership Responsibilities

Relevant Inspection Procedures

- Review business model, firm's strategy, their products and service offerings
- Review information about firm management and those with operational responsibility for Quality Control
- Consider results of other whole firm inspection procedures that impact objectives with regard to leadership responsibilities

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Human Resources

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Human Resources

Agenda

- Recruitment
- Partner and Staff Evaluation
- Partner Remuneration
- Staff Remuneration
- Promotions
- Competence

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Human Resources

Recruitment

- Establishment of recruitment processes and procedures
 - Criteria for selecting individuals
 - Use of „Interviews“ or „Assessment Centers“
- Review records for a sample of applicants of different grades
 - Basis on which decisions were made
 - Include applicants were refused

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Human Resources

Partner and Staff Evaluation (1)

- Does the firm's appraisal system reflect audit quality
 - What are the contents of the partner scorecard
 - Is it linked to the firm's strategy
 - Is this clear and explicit within the system
- Is a "Competency Framework" defined for assessing performance of partners and staff of different grades
 - Is this framework appropriate
 - Is this framework implemented consistently
- Is there any guidance by the firm on appraisals and objective settings

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Human Resources

Partner and Staff Evaluation (2)

- How timely is the appraisal process performed
- Is compliance with the appraisal process monitored by those charged with governance
- Review of appraisal records for partners and senior staff
 - Have the appraisals been performed according to firm policies on a timely basis
 - Is audit quality reflected in the appraisals (e.g. internal inspection results, quality control partner input)
- Are appraisals linked to remuneration

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Human Resources

Partner Remuneration (1)

- What is the model for partner remuneration
- Is it transparent and can be understood
- What are indicators for audit quality
 - How are these indicators measured?
 - Are the indicators linked to performance appraisals?
- To what extent is audit quality a driver and affects remuneration significantly
- Is the model implemented consistently within in the whole firm and are rules for exceptions implemented

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Human Resources

Partner Remuneration (2)

- Select a sample of partners for review
 - Analyse changes in remuneration over 2-3 years
 - Check consistency with firm's remuneration policy
- Do performance grades & quality indicators really affect remuneration?
- Results of monitoring should feed into performance reviews

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Human Resources

Staff Remuneration

- Is audit quality a driver
- What are pay differentials among staff members based on
- Link to performance appraisals
- What are bonuses based on
 - Review basis for a sample of staff bonuses
- What are changes in fixed salary based on
 - Review changes for a sample of staff members

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Human Resources

Promotions (1)

- Criteria for becoming a Director or Partner
 - Use of “Assessment Centres” or “Panels”
 - What role does technical competency play
 - What role does sales/marketing play
 - Development needs identified and a mentoring process implemented
- Senior Managers and other promotions
 - What criteria are used

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Human Resources

Promotions (2)

- Review files for a sample of candidates
 - Include new partner admissions and direct partner admissions
 - Include candidates who failed
- Is the basis on which decisions were made consistent with the firm's policy

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Human Resources

Competence (1)

- Effective policies and procedures in place for continuing training for all levels of firm personnel
 - Training appropriately coordinated with audit work
 - Coaching and „training on the job“ by managers and partners
 - Sufficient post qualification technical training
 - Independence training included
- Is compliance with the training policies and procedures monitored

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Human Resources

Competence (2)

- Review the firm's training program
 - Is audit training mandatory
 - Is accounting training sufficient including updates
 - Is the audit program tailored for all level of firm personnel
- Select a sample of training files
 - Include different grades
 - Review of „training history“
- Check the monitoring process for training for the current year

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Independence and Ethics

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Independence and Ethics

Independence and Ethics

Content of session

- ISQC 1 requirements and IFAC Code of Ethics
- Overview of AOC's approach
- Relevant firm policies and procedures
- Relevant inspection procedures

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Independence and Ethics

ISQC 1 Requirements

- International Standard on Quality Control 1 released April 2009: *Quality Control for Firms that Perform Audits and Reviews of Financial Statements ..*
- Paragraphs 20-25 deal with relevant ethical requirements – mainly independence
- Application material in paragraphs A7-A17 – gives reference to IFAC Code of Ethics

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Independence and Ethics

IFAC Code of Ethics

- *Code of Ethics for Professional Accountants* issued in 2005
- Distinction between professional accountants in public practice and those in industry
- Public practice section includes 46 pages on *Independence – Assurance Engagements*

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Independence and Ethics

Overview of AOC's approach

- Are firm policies in place that meet requirements of ISQC 1 and the IFAC Code of Ethics?
- Is the documentation of these policies appropriately and well communicated?
- Are these policies consistently implemented?
- Does non-compliance have consequences?

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Independence and Ethics

Does the firm have policies that meet ISQC 1 requirements?

Overriding issue

Is ultimate responsibility assumed by the firm's CEO or equivalent, or delegated to a senior person with necessary authority to assume that responsibility?

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Independence and Ethics

Does the firm have policies that meet ISQC 1 requirements?

Content of policies

- Financial interests
- Close relationships
- Conflict of interest
- Restricted services
- Confidentiality
- Professional behavior
- Annual independence declarations

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Independence and Ethics

Does the firm have policies that meet ISQC 1 requirements?

Content of policies (cont'd)

- Current restricted list for all investments
- Appropriate tracking system for individual portfolios
- Supervision of portfolios if required
- Competent people handling independence issues
- Duty of reporting independence breaches
- Breaches followed up by senior management
- Disciplinary process for firm's personnel

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Independence and Ethics

Relevant inspection procedures

- Interviews with senior people with authority for this element of Quality Control
- Review of firm's policies and procedures
- Testing of policies at firm level
- Testing implementation of policies at engagement level

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Independence and Ethics

Relevant inspection procedures at firm level

- Interviews with all those with significant responsibility, including CEO
- Review of all policies
- Interviews are best source of information, but need to be corroborated by other documents

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Independence and Ethics

Relevant inspection procedures at firm level

Review of policies

- ISQC 1 fully covered?
- Are policies properly communicated and covered in annually training?
- Is evidence of compliance available?
- Procedures for new employees?
- Are network firms covered?

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Independence and Ethics

Relevant inspection procedures at firm level

- Test annual declaration process of independence
- Test the quality of the restricted investment lists
- Review queries and relevant follow ups as well as results of compliance audits
- Review summary analysis for leadership of compliance from confirmations, queries and any audits
- Review communications of results

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Independence and Ethics

Inspection procedures at engagement level

- Have engagement teams and other relevant personnel done their independence declarations?
- Are threats and safeguards identified?
- Any affiliates not identified with regard to restricted services?
- If breaches are identified, is properly dealt with them and are they communicated as required?

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Selection and Review of Audit Engagements

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Selection and Review of Audit Engagements

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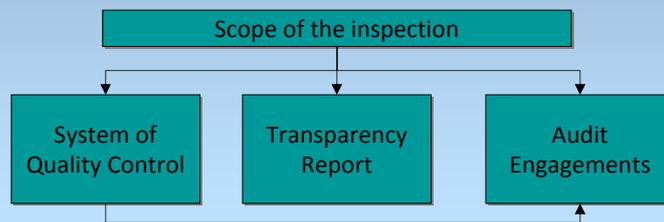
- German inspection approach
- Engagement review process overview
- Selection of audit engagements
- Analysis of engagement information
- Planning of the engagement review
- Review of audit engagements
- Reporting of findings

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Selection and Review of Audit Engagements

German inspection approach

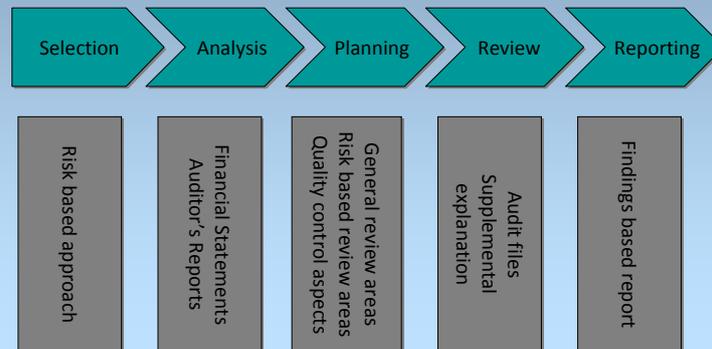
Objective: detect indications for breaches of professional duties



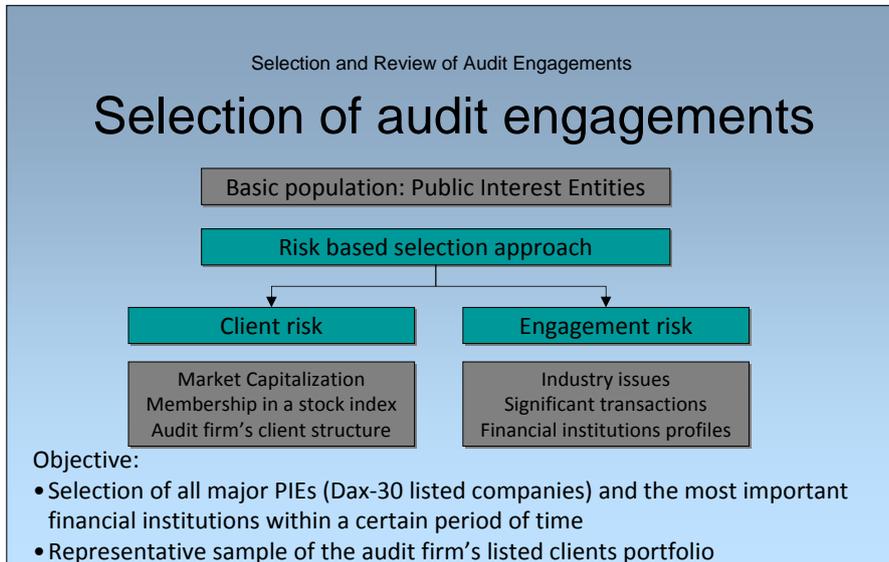
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Selection and Review of Audit Engagements

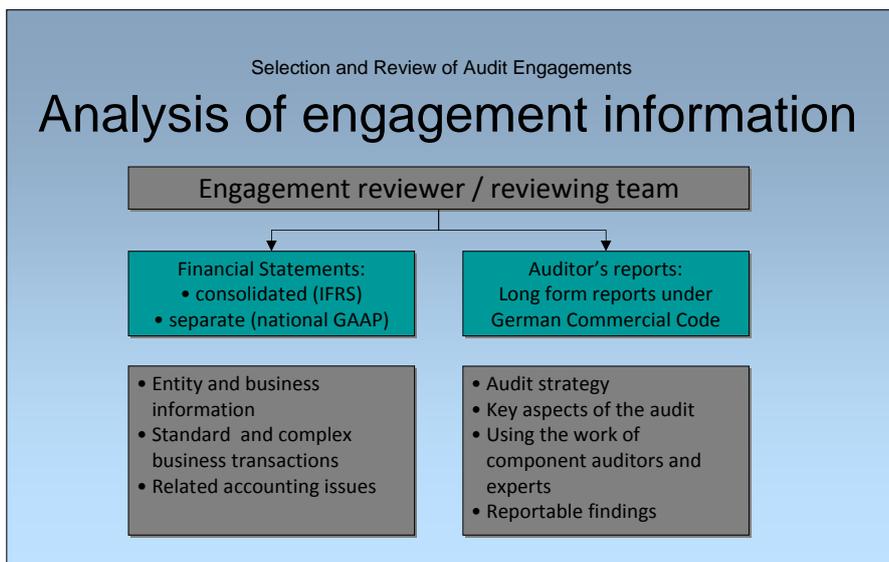
Engagement of review process overview



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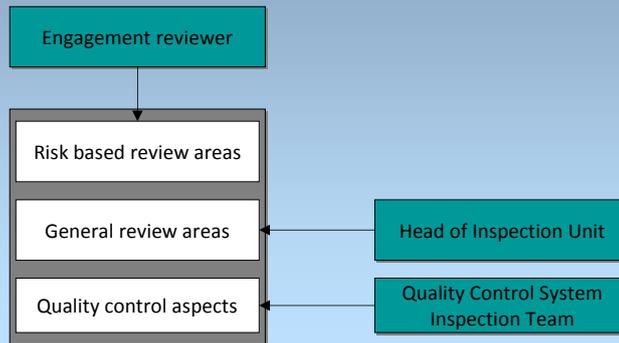
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Selection and Review of Audit Engagements

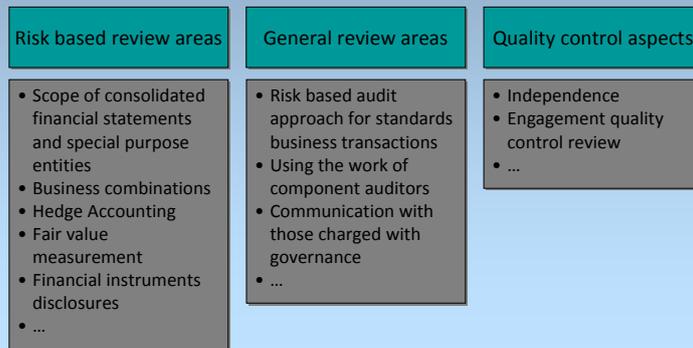
Planing of the engagement review (1/2)



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Selection and Review of Audit Engagements

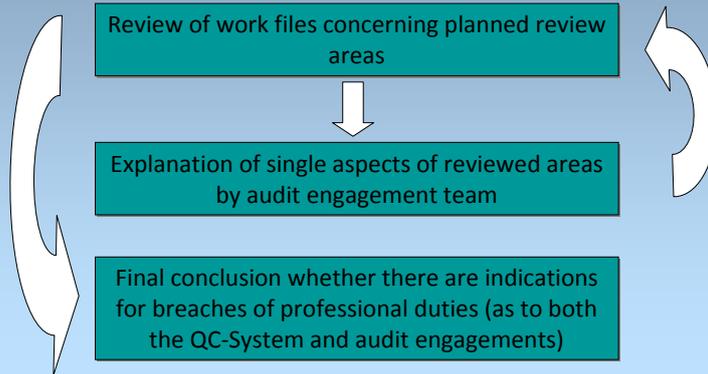
Planing of the engagement review (2/2) Examples of engagement review areas



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Selection and Review of Audit Engagements

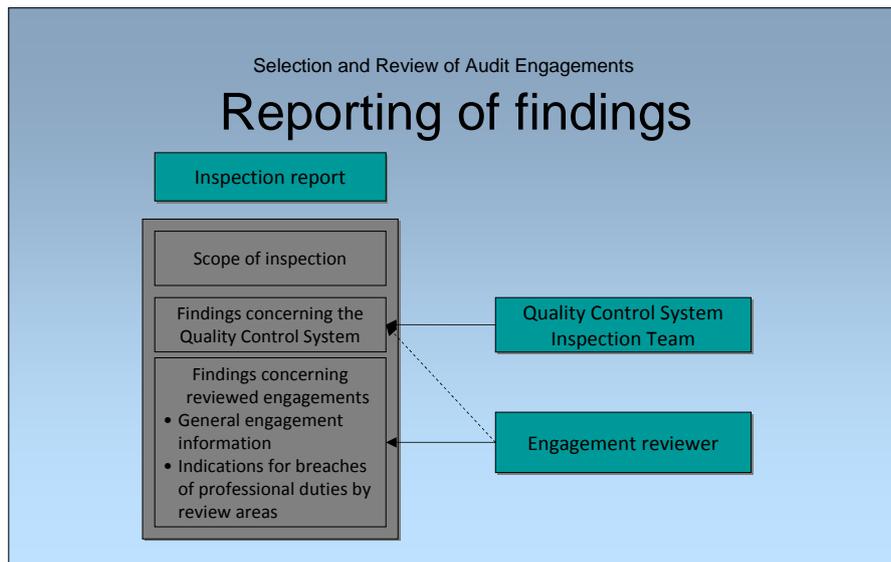
Review of audit engagements



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Selection and Review of Audit Engagements

Reporting of findings



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AUDITOR OVERSIGHT COMMISSION

Thank you for your attention.