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## Efficient and effective audit quality assurance – the UK approach

Workshop on Quality Assurance Review  
Techniques  
ICAEW Quality Assurance

### Summary

- UK audit regulation
- ICAEW's quality assurance role
- Our philosophy to support effective monitoring
- Efficient and effective risk based quality assurance (QA): annual monitoring, visit frequency and format, reporting etc
- Promoting and supporting audit quality – our ongoing role

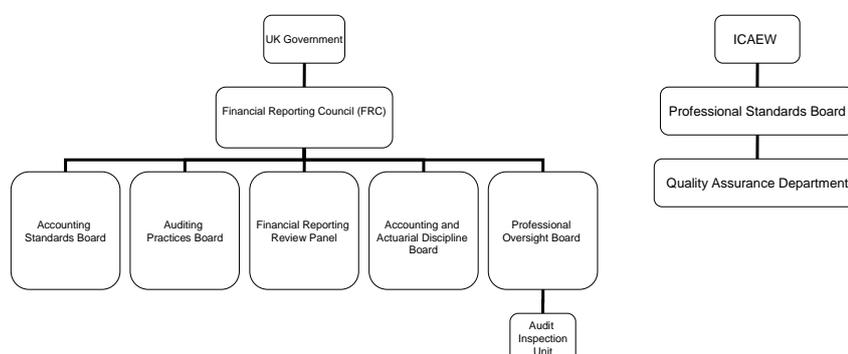
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## UK audit regulation

- Auditors under control of recognised supervisory bodies (RSBs) responsible for:
  - registration of auditors
  - monitoring of auditors and audit firms
  - disciplining auditors and withdrawing registration
  - issuing penalties, publicising discipline
- Direct government oversight until 2004
- Changes post Enron
  - Public oversight: Financial Reporting Council / Professional Oversight Board
  - Separate monitoring body (AIU) for largest entities

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## Structure



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## ICAEW's quality assurance role

- UK's largest accountancy body:
  - over 11,500 practices including 4,100 registered audit firms
  - over 134,000 members, 23,000 with practising certificates
- Monitoring via Quality Assurance Department (QAD)
- Monitoring responsibilities include: audit, insolvency, money laundering, investment business and Practice Assurance (member mandated)
- Investigations, discipline, complaints and committee management via Professional Conduct Department (PCD)

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## Our philosophy to support effective monitoring - Outline

- Main drivers
  - ICAEW's charter
  - Statutory Audit Directive
  - Our own experience
- Guiding principles
  - An effective balanced approach
  - Using the right people
  - Developing trust and respect with firms
  - Acid test
- Quality Assurance of us
- Feedback from firms

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## Drivers - The ICAEW's charter

- To operate in the public interest
- To advance the theory and practice of accountancy .. in particular auditing
- To maintain high standards of practice and professional conduct ..
- To .. advance the profession of accountancy ..



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## Drivers - EU Statutory Audit Directives

- Article 29 – requirements for QA systems:
  - Independence and public oversight
  - independent funding and adequate resources
  - competent/trained reviewers, objectively selected
  - reviews supported by adequate testing of audit files
  - compliance with audit standards / independence
  - Appropriate resources/fees; internal QC
  - Reporting on main conclusions of the review
  - Reviews every 6 years, results annually, follow-up

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## Drivers – efficient and effective approach developed through sixteen years of experience

- Sensitive to regulatory burden on firms
- Funds and resources for monitoring not limitless
- Firm driven culture of quality vital
- The result is paramount:
  - Driving highest standards
  - Continuous improvement
  - Tone at the top/firm culture



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## Principles – An effective balanced approach

- **Serious assessment**
  - effective, proportionate & uncompromising inspection
  - Where needed focus on long-term and sustainable improvement in audit quality
- **Emphasis on support by providing:**
  - constructive on-site guidance, based on experience
  - help-sheets, 'Accountancy' newsletters, alerts,
  - help-lines, faculties, special interest groups,
  - Presentations to members and member groups

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## Principles – Using the right people is key to effective monitoring

Our review staff

- Independence from audit firms:
  - employees of ICAEW
  - bar from monitoring ‘old employers’
- High quality team
  - ex-Managers/ex-partners, proven skills
  - can challenge and advise - based on experience
  - ICAEW performance review
  - CPD, training, reference materials, technical support
  - annual declarations (fit & proper, independence)

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## Principles – Developing trust and respect with firms

- To optimise efficiency, effectiveness and coverage

Trust is paramount

- Firms must believe they will be treated fairly by us
- Decisions must be fair, sensible and realistic

Results

- Openness: reduces monitoring (firm’s own QA review)
- Less friction: swift acceptance of findings & solutions
- Proactive culture of quality (not defensive/protective)

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## Principles – acid test!

- Firms showing:
  - positive commitment to quality and training
  - investment in good people and good systems

Treated fairly and proportionately and given opportunity to fix problems and improve

- Firms showing:
  - lack of integrity
  - unwillingness to change and improve
  - inability to achieve essential standards

Tough stance - to protect them, their clients and the ICAEW

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## Quality Assurance of us!

- Our own Internal QA Review
- ICAEW Internal Audit & Audit Committee
- Audit Registration Committee
- Professional Standards Board
- Practice Advisory Board & ICAEW Council
- Professional Oversight Board

Replicated for Investment Business, Practice Assurance, Insolvency and Money Laundering

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## Feedback from firms – A fair, efficient and effective process

- Firms voice doubts before visits, few afterwards
- Feedback analysed by ICAEW's Research Centre
- 40% to 50% response levels
- Satisfaction levels consistently in 90% to 100% range
- 82% intend to change procedures/working practices
- Nearly all respondents were 'very satisfied' or 'satisfied' with the visit process and interaction with us
- Suggests ways we could improve the visit experience

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## Efficient and effective risk based quality assurance: annual monitoring

- The annual return – an efficient method of risk based annual monitoring
- Information collected
  - core data: structure, principals, activities
  - arrangements for PII, CMR, AMLR
  - compliance with laws, regulations, standards, ethics
  - annual compliance reviews; good practice points
- How we use information effectively

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## Efficient and effective risk based quality assurance: firm visits

- Combined cyclical and risk-based approach (c. 10% risk)
- Audit firm visit cycles:
  - most 6 years,
  - listed company auditors/poor history: 3 years
  - largest firms: annual visits
- Time on-site varies - proportionate to risk
  
- Visit scheduling process
  - advance notice by letter,
  - guidance on process (including agendas and records required)

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## Efficient and effective risk based quality assurance: on site - the opening meeting

The reviewer will:

- explain the purpose and format of the visit
- seek to understand the firm's
  - structure, culture, systems, activities,
  - clients, future plans, training,
  - continuing professional development and update
- discuss and resolve any queries

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## Efficient and effective risk based quality assurance: on site - fieldwork

- Flexible approach based on circumstances and risk
- ISQC 1 compliance:
  - discussions around the six key elements
  - manuals, systems, procedures
  - annual compliance reviews (effective, comprehensive)
  - PII records, claims
  - CPD, training records, appraisals
  - declarations
- Our documentation

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## Efficient and effective risk based quality assurance: on site - fieldwork

- Audit file reviews
  - criteria for selection including how many
  - depth of review
  - collation and presentation of findings
  - interaction with audit teams
  - underlying causes

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## Efficient and effective risk based quality assurance: on site - the closing meeting

- Written findings provided on the visit – no surprises:
  - matters requiring action
  - suggested actions (worth serious consideration)
  - exception reporting
- Two-way discussion, appropriate resolutions
- Normally 15 business days to respond

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## Efficient and effective risk based quality assurance: on site - reporting

- Rating system
  - reflects nature and extent of action needed
  - focus on getting right in future
  - assessment of commitment and ability
  - involves careful weighing up of relevant factors
- Some matters dealt with by us:
  - less serious; firm able/willing to resolve
- Serious matters or firm unable/unwilling to resolve - referred to committees
- Coordinate reporting with AIU on large firms

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## Efficient and effective risk based quality assurance: Audit Registration Committee

- Members: small and large firms, non-accountants
- Monthly meetings
- Considers our reports and can:
  - offer conditions, restrictions and penalties
  - remove registration, with publicity if appropriate
  - refer serious matters to disciplinary process
- Also considers AIU reports – link to public reporting
- Reviews our visits and processes
- Approves regular newsletter to firms

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## Supporting and promoting audit quality – our ongoing role

- Support ICAEW wide initiatives to promote audit quality
- Work effectively with the Professional Oversight Board and standard setters (e.g. the Auditing Practices Board)
- Give presentations to members, participate in training provider events and have discussions with individual providers and other key stakeholders
- Release messages to firms on common problem areas and how to put them right
- Highlight important forthcoming changes (e.g. clarity ISAs) and seek to help firms prepare early

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Questions?

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