Accountancy Board

Quality Assurance Unit

2013 - ANNUAL REPORT

Quality Assurance Oversight Committee

(issue date - March 2014)

INTRODUCTION

2013 was the seventh year of the Quality Assurance Oversight Committee (‘QAOC’) activities. In compliance with its legal requirement the Accountancy Board is pleased to present its seventh annual report set out in accordance with the requirements of Article 7 (19 & 20) of the Accountancy Profession Act, Cap 281. The report provides an overview of the audit quality inspection activities of the Quality Assurance Unit (‘QAU’) for the year ended 31 December 2013. The report includes an overall assessment of the audit quality, together with details of the QAOC, its annual work programme, and the findings from monitoring visits to audit practitioners carried out by the QAU throughout 2013. The findings from the monitoring visits performed in 2013 are similar to those we have highlighted previously with significant number of repeat breaches. Details of our 2013 inspection findings are set out in section 3.3 of this report.

Over the past three years the QAU has established good relationships with the European Audit Inspection Group (‘EAIG’) whose members consists of 30 audit regulators from the EU and the European Economic Area countries. The EAIG was established in 2011 to provide a pan-European platform for co-operation of audit regulators. The primary purpose of EAIG is to create awareness of important issues and promote co-operation and harmonisation amongst European audit regulators on Public Interest Entities (‘PIE[1]’,) auditors’ monitoring inspections. One of the EAIG core activities is a regular dialogue with international standard setters such as the International Auditing and Accounting Standards Board (‘IAASB’) and the International Ethics Standards Board for Accountants (‘IESBA’). By providing a common platform for discussions, the EAIG facilitates the development of individual comment letters of its members to these standard setters as well as joint comment letters by audit regulators.

On an international platform, the QAU works closely with International Forum of Independent Audit Regulators (‘IFIAR). IFIAR was established on 15 September 2006 by independent audit regulators from 18 jurisdictions. Since its creation, IFIAR’s membership has today grown a total of 47 members.

IFIAR focuses on the following main activities:

- Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms,
- Promoting collaboration and consistency in regulatory activity, and
- Providing a platform for dialogue with other international organizations that have an interest in audit quality.

IFIAR became a Member of the Monitoring Group set up during 2011. The Group oversees audit and accounting related standard setting activities of the International Federation of Accountants (IFAC), monitors the activities of the Public Interest Oversight Board (PIOB), and convenes to discuss issues and share views relating to international audit quality and regulatory and market developments having an impact on auditing.

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[1] Public interest entities - entities whose transferable securities are admitted to trading on a regulated market within the meaning of point 14 of article 4(1) of Directive 2004/39/EC, a credit institution as defined in point 1 of Article 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions, an insurance undertaking within the meaning of Article 2(1) of Directive 91/674/EEC and such other entities as may be prescribed by the Board.

There are a number of Working Groups within IFIAR that address various work streams important to audit regulators and form the core of IFIAR's activities alongside its plenary meetings and workshop. Since its creation, IFIAR has convened on a semi-annual basis for high-level plenary meetings and on an annual basis at an Inspection Workshop. IFIAR moved to annual plenary meetings in 2013.

It is indeed fascinating to see how IFIAR, in relatively a few years since its foundation in 2006, (Malta joined in 2007) has developed into an influential global organization that is keeping the audit networks "on their toes", with a particular focus on Public Oversight , audit quality and protecting investor interests. It is an honour and privilege for Malta to be part of such an organization which over such a short period of time has established itself as such a forceful and sought after organization which has not only given a new meaning to audit regulation but has certainly set the larger international network firms carefully considering inspection findings from IFIAR members, setting regular meetings with these larger firms to ensure that these findings are addressed on a timely basis and filtered down to their respective network firms.

IFIAR also participates in international efforts to promote audit quality. The QAU has participated in workshops organised by the IFIAR related to exchange information and experiences relating to inspections of PIE audit firms. I have attended meetings where sharing experiences on inspection issues on inspection findings. We believe that our experience with IFIAR will help strengthen our relationships on an international level as we go forward.

In December 2013 the EAIG launched a common non-public database to collect and exchange their findings from the inspections of audit firms. The Accountancy Board participated in this project. The database contains inspection findings attributed to audit firms of Public Interest Entities. The objective of this database is to share the findings amongst the regulators of the European Area for a consistent understanding of issues and help establish common approaches in addressing audit deficiencies. The findings include a review of the audit firms' internal quality control procedures and a review of selected audit engagements to test compliance with relevant professional standards. The centralised database is hosted and administered by the German Audit Oversight Commission, in Berlin.

While, clearly, protecting the capital markets is one of the key objectives of Public Oversight, in many countries, SMEs are major contributors to GDP and therefore Public Oversight cannot overlook this factor. SMEs across Europe account for 98% of all incorporated businesses and therefore impact heavily on the economic activity of EU Member States. The EU has been sympathetic towards SMEs and, quite rightly, believes that burdens on SMEs (including audit and accountancy) should be reduced. It is only a minority of the practices we visit that audit PIEs. All incorporated businesses in Malta, irrespective of the size, stature and exposure, are required to have their financial statements audited and therefore fall within the remit of the QA Directive.

The QAU is now into its second cycle of visits for non PIE auditors, and third visit cycle for PIE audit firms. The first cycle of visits, which came to an end in mid 2012, was a learning experience for the QAU, the Committee as indeed the practitioners themselves. Regrettably, our findings during the last eighteen months have shown a significant number of repeat breaches. These repeat breaches are occurring amongst smaller audit practices, in particular, those, whose audit clients are generally SMEs and micro-entities. Firms and practitioners must not only ensure that breaches reported during the earlier visits are addressed on a timely basis but must also ensure that the highest form of QA policies and procedures, including ethics, are fostered by the audit profession at all times.

The audit files we reviewed in 2013 still bring to light to a large extent the inadequacy of the documentation of the audit work undertaken by the smaller practitioners in the course of their audits. We believe, that amongst other things, the root cause of number of the deficiencies noted in this report stems from the excessive tailoring of the audit programs being used.

2013, was again a challenging year for the QAU, not only because of its recruitment problem but also of the extent of administrative work, including that of the Accountancy Board it had to cope with. Moreover, second cycle visits were generally that more demanding on resources. Nevertheless the QAU carried out 19 visits during 2013. It co-operated with other audit regulators and provided feedback to a number of organisations on inspections findings, and provided advice and recommendations on a number of issues concerning the audit and accountancy profession in Malta.

Section 3 of the report not only gives an insight of the profile of the audit profession in Malta as indeed the structure of the public oversight and QA process in Malta but also goes in detail as to the findings the QAU came across in the course of its inspection visits during 2013.

The audit and the accountancy profession in Malta is one of the few professions which has moved away from self regulation and probably the only one which has been subjected to independent Public Oversight and QA. With the expectations gap on auditor reporting widening the need for audit practices to have robust systems of internal quality controls, and adequate risk management procedures are today more pronounced than ever before. The financial and the banking crisis which reaped havoc across the Globe bear evidence to this.

For 2014, the QAU has set itself new goals namely that of creating more public awareness of the Quality Assurance process amongst all stake holders, advice and make recommendations to the Accountancy Board in regard to EU audit regulation particularly in the areas of governance, enforcement and compliance mechanisms. The QAU will continue to work closely with the recognised accountancy body to assist audit practitioners not only to cope with their basic CPE requirements, but also to focus more closely on audit related topics, particularly those related to SMEs, with a view to improving auditing standards generally. One augurs that these will add value to Audit Quality.

We envisage that 2014 will pose another challenging and exciting year for the whole of the QA and Public Oversight process in Malta. The long awaited Audit Reforms pertaining to PIE audits are expected to go through and obtain European Parliament approval by the end of summer this year. The transposition of the Single Accounting Directive, published in June 2013 will also be on our radar in 2014. This will undoubtedly impact on the audit profession in Malta.

Last but not least we take this opportunity to welcome on board the two new audit quality reviewers, who have now joined our team, Mr Roderick Falzon ACCA, B.Com (Mgt), MIA, CPA and Ms Naomi Cachia ACCA, MIA, CPA, Dip IFR.

Mr. Charles Rapa FCCA, FIA, CPA, MBA (Brunel/Henley), MIM
Chairman – QAOC

10 March 2014

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QUALITY ASSURANCE OVERSIGHT COMMITTEE

SECTION 1 - COMPOSITION AND FREQUENCY OF MEETINGS

Directive 4 of the Accountancy Profession Act – referred to as the “Quality Assurance Directive” sets out the composition of the Quality Assurance Oversight Committee (QAOC). This Committee is made up of five individuals appointed for a period not exceeding three years, but who shall be eligible for re-appointment. The composition of the QAOC is made up of:

(a) Two members nominated from a list of not less than four persons provided by the Malta Institute of Accountants (approved accountancy body); and
(b) Not less than three members are nominated, who have, for at least three years prior to their appointment to the QAOC (and throughout the entire term of their appointment/re-appointment), not carried out statutory audits, nor held voting rights in a firm, nor been a member of the administrative or management body of a firm and have not been employed by, or otherwise associated with a firm.

During 2013, the composition of the QAOC was made up of the following five Committee members:

Chairman
Mr. Godfrey Leone Ganado FIA, CPA (appointed September 2012 – resigned April 2013).
Mr. Charles Rapa FCCA, FIA, CPA, MBA (Brunel/Henley), MIM (appointed April 2013).

Members
Ms. Heather Briers FCA; (Director CARB)
Mr. Alfred Lupi FCCA, BSc Econ, FIA, CPA;
Mr. Guido Mizzi FCCA, FIA, CPA; and
Mr. Peter Paris FIA, CPA

Secretary
Mr. Marcel P. Coppini FCCA, FIA, CPA

The Committee held two meetings during the year – one in April and the other in September 2013.

SECTION 2 – OVERVIEW OF THE REVIEW PROCESS

2.1 Introduction

This section presents an overview of our methodology in the review process. The methodology is designed to achieve our quality assurance objectives in the most cost-effective and efficient manner.

Our review process is designed to ensure high quality QA inspections which ensure consistency and objectivity in the conduct of our work.

2.2 Methodology

The methodology used by the QAU is risk based. This is manifested throughout the visit review process. The visit cycle which is embedded in Directive 4, requires PIE audit firms to be visited at least once every 3 years, whilst non PIE auditors are to be visited at least once every six years. This does not preclude that audit entities may not be visited at more frequent intervals of 3 and 6 years. The annual returns submitted play an important role in the selection of audit practices to be visited. All annual returns are subject to Desk Top Monitoring (‘DTM’), and key QA indicators are identified. DTM could trigger off a visit where indicators show unpredictability in the following areas:-

a) Average number of hours spent on audits;
b) Staff to clients ratio;
c) Staff to partners ratio;
d) Partners to clients ratio;
e) Increase in audit clients / increase in audit staff;
f) Average CPE hours spent by audit staff members;
g) Frequency of Audit Compliance Reviews (including cold file reviews)
h) Sanctions and other follow up from previous visits.

Apart from DTM, visits may be scheduled on the basis of media reports, formal written complaints received by the Accountancy Board or as a result of follow-up visits being imposed during previous QAU visits.

The files selected on each visit are based on the risk criteria identified by reviewers. At the planning stage of the visit, the QAU carries out a preliminary assessment of the files to be reviewed. The focus is directed towards those areas and activities that present the highest risk. During field work the level and depth of the inspection is determined by the QAU’s perceptions of the inherent risk in the process and the extent of findings noted during the visit.

The QA review process also requires reviewers to look at whole practice matters, which include a review of the practice’s ISQC 1 manual, professional indemnity insurance cover, continuous professional education, audit compliance reviews including cold file reviews, and independence and other ethical issues.

2.3 Steps in performing quality assurance review

The broad steps involved in our quality assurance review process can be represented diagrammatically in Figure 1 below.

Figure 1 – Quality Assurance process

1. PLANNING	Visit notification	Opening Meeting
2. FIELDWORK	Reviewing client audit files	Review General Audit firm issues
	Obtaining written clarification on issues raised by audit compliance principal	
3. CLOSING MEETING	14 days given to respond in writing to all issues raised	
4. REPORT WRITING	QAU writes report and append firm's comments for review by QAOC	
5. QAOC DECIDES	QAOC decides action that needs to be taken	

SECTION 3 - SUMMARY OF ACTIVITIES DURING 2013

3.1 Quality assurance visits

The increases in the numbers of auditors and audit firms providing statutory audit services were marginal. There were a total of 163 sole practitioners (154 in prior year) and 61 audit firms providing statutory audit services (56 in prior year). During 2013 a total of 5 new audit firms were registered with Board.

Figure 2 – Number of Firms and Practitioners

	Total no of firms/ practitioners
PIE Audit firms	9
Non – PIE audit firms	52
Full – time sole practitioners	76
Part – time sole practitioners	87

To date, the Quality Assurance Unit (QAU) carried out a total of 244 quality assurance visits as indicated below.

Figure 3 – Number of Audit Entities Visited Since 2007

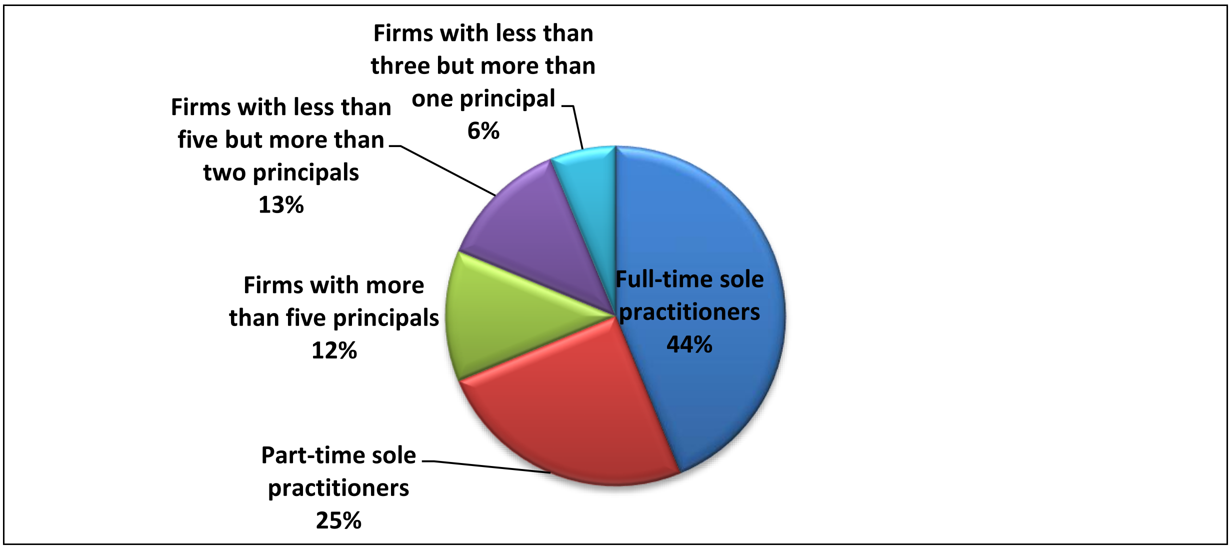
	Cycle 1	Cycle 2	Cycle 3 (PIE auditors)	Total
PIE – audit firms	11	9	1	21
Non PIE – audit firms	27	13	-	40
Sole practitioners	131	52	-	183
Total	**169**	**74**	**1**	**244**

In 2013, the QAU visited 19 firms and practitioners, in spite of the QAU having only one full time reviewer and another working on reduced hours. Included in the visits carried out are 2 practices which carried out audits of public interest entities. For these 2 visits, assistance was provided by the Chartered Accountants Regulatory Board of Ireland (CARB) and the Institute of Chartered Accountants in England and Wales (ICAEW).

Throughout the prior year 13 audit practices and firms had been visited. As from January 2014, two newly appointed reviewers have joined the QAU and are currently undergoing training.

During the two QAOC meetings held during the year ending 31 December 2013, the QAOC has reviewed and closed down 16 visits bringing the total visits reviewed by the QAOC to 235. A graphical representation of the practices reviewed by the QAU is shown in Figure 4 below.

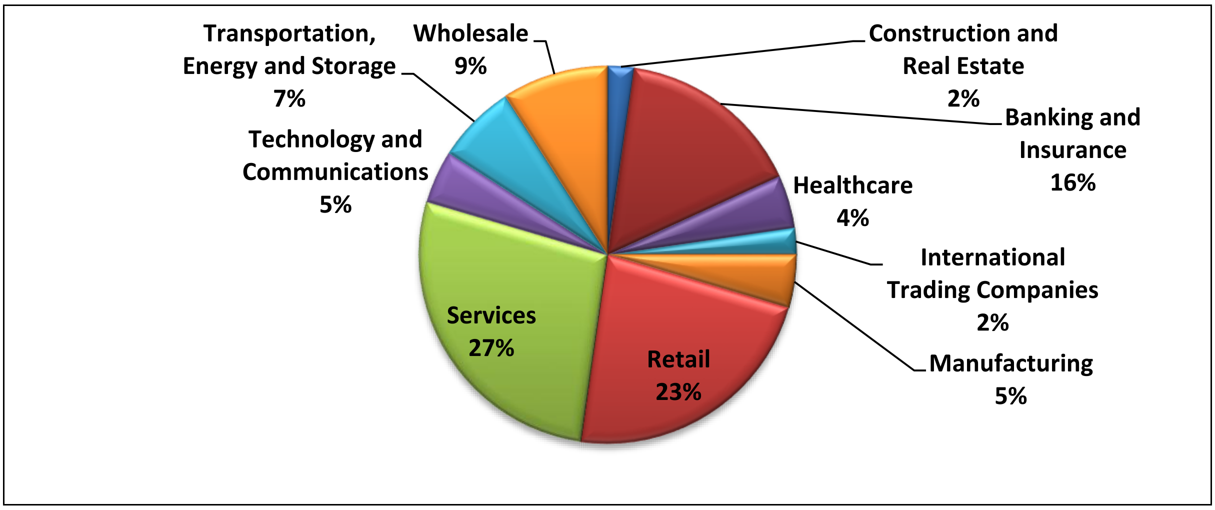
Figure 4 - The Composition of Practices Reviewed by the QAOC



3.2 Overview of visits carried out in 2013

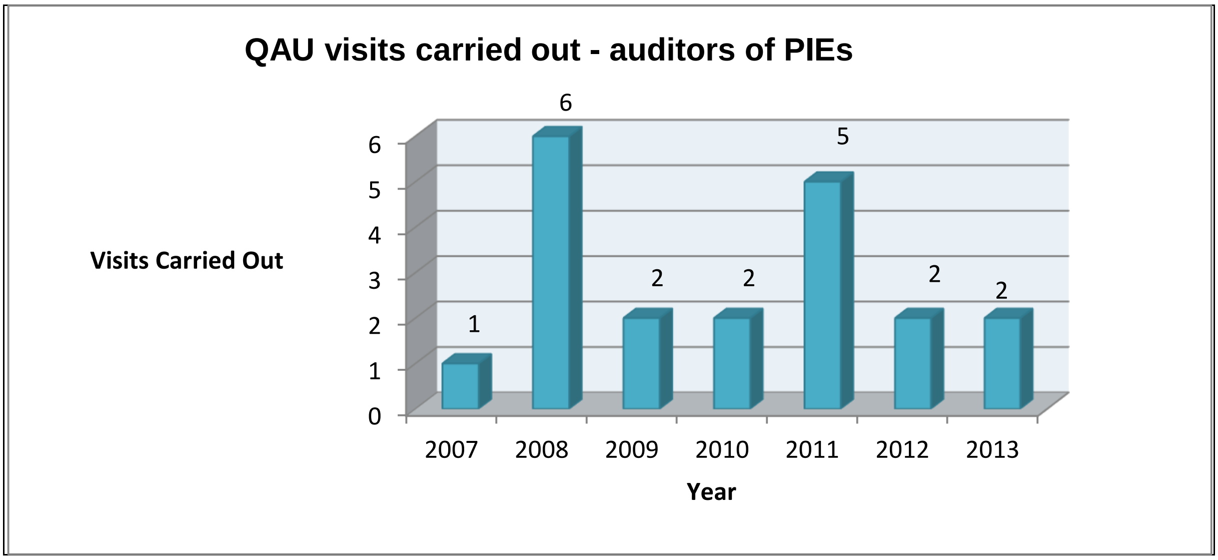
During 2013, based on the QAOC reports issued, a total of 45 audit files were reviewed (of which 6 were public interest entities). The analysis of audit files selected by industry during the inspection visits is shown in Figure 5.

Figure 5 – Analysis of Audit Files Selected by Industry



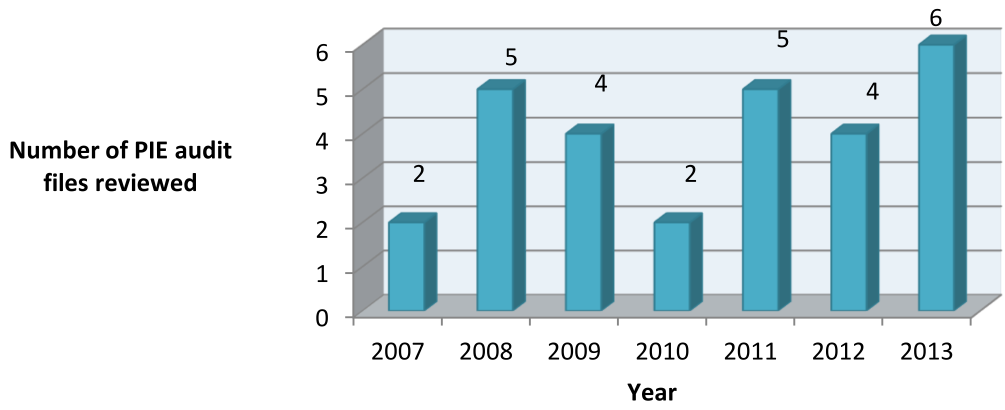
By the end of 2013, there were 9 audit firms auditing public-interest entities of which two firms were visited in 2013. The number of audit firms visited by the QAU since 2007 is shown in Figure 6.

Figure 6 – QAU Visits to PIE Auditors



During 2013, the QAU reviewed 6 audit files of public interest entities. To date, the QAU has reviewed a total of 28 statutory audits of public interest entities as illustrated in Figure 7.

Figure 7 – Public Interest Entity Audit Files Reviewed by the QAU



There are currently 44 listed bonds and equity on the local stock exchange, 26 banks, 5 insurance companies and 19 SICAVS. Based on 2012 transparency reports 86% of these listed bonds and equity are audited by the Big 4 audit firms. One Big 4 audit firm audits 29% of all PIEs.

3.3 Overview of 2013 inspection reports

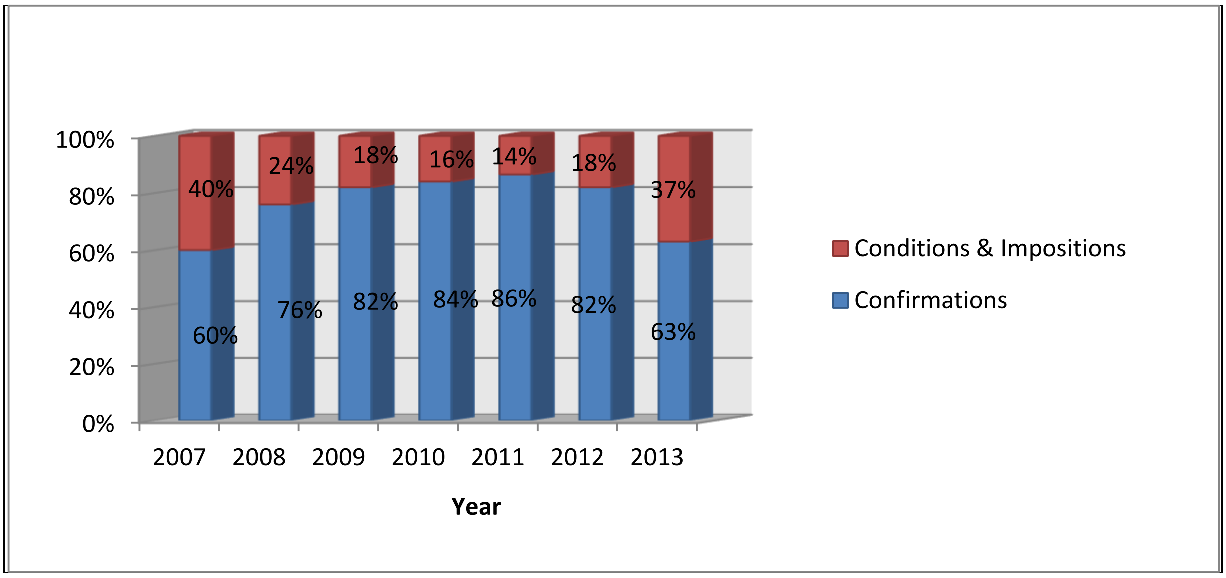
As in past years, reports are assessed on the basis of the incidence, magnitude and gravity of visit findings, as well as the level of commitment and ability of the firm or sole practitioner to address the problems identified. In its closing down letter to the practitioners visited the QAOC communicates the sanctions, impositions or any other corrective action, if any, which the QAOC may deem appropriate.

Since the QAU is in its second cycle and in some cases third cycle of visits to practitioners/firms it is also checking to ensure that findings raised in the previous visit are being addressed by the practice. Based on the visits carried out in 2013, we have noted that in a significant number of instances the same weaknesses are being found. This is of concern as these same firms and practices would have confirmed that they would address the matters identified. This lack of rigour and commitment by practitioners to address findings identified during the QAU visit is of serious concern to the QAOC and as a result the sanctions imposed by the Committee have reflected this.

As depicted in Figure 8, one can note the marked increase in conditions and impositions being imposed on audit practices – this has increased by 19% when compared with the prior year. The sanctions imposed by the Committee included hot file reviews, follow up visits, attending additional CPE activities addressing audit related matters, external audit compliance reviews as well as external cold file reviews.

Practitioners and firms are advised to address QAOC findings in a timely manner as close as possible to the conclusion of the QAU visit and with the necessary rigour to ensure that repeat breaches are addressed on a timely basis.

Figure 8 – Course of Action Taken by QAOC



There are presently three cases referred to the Accountancy Board by the QAOC for further action. It is pertinent to note that the QAOC can recommend to the Accountancy Board, in terms of paragraph 34 of the Directive 4 of the Accountancy Profession Act, that it orders the imposition of restrictions and conditions in respect of an audit practitioner's warrant in terms of paragraph 32 of the Quality Assurance Directive as well as request an inquiry with the required degree of urgency by a disciplinary committee.

Based on the QAOC reports issued during 2013, conditions including impositions on practitioners/firms can be split into two categories – the majority required that apart from providing confirmations they were required to also undergo an external audit compliance review including cold file reviews, whilst the other category required that they would be subjected to a follow up visit by the QAU.

Figure 9 – Analysis of Sanctions Issued by the QAOC since 2007

	Follow up visits	**External ACRs & cold file reviews**	**Hot file restrictions**
PIE audit firms	1	0	1
Non–PIE audit firms	2	5	0
Full-time sole practitioners	2	8	4
Part–time sole practitioners	1	5	3
Total	**6**	**18**	**8**

Furthermore, if one were to analyse the composition of reports issued featuring conditions and impositions in 2013 one would note that conditions and impositions were sanctioned equally on sole practitioners and firms as was the case in the prior year. 3 cases have been referred to the Accountancy Board for further consideration.

3.4 Summary of 2013 inspection findings

Findings identified during the 2013 quality assurance visits predominantly fell into three broad categories – Audit File Findings, Audit Reports and Whole Practice Matters. Those findings pertaining to non PIE audit practices have been segregated from findings we have come across on visits to PIE audit firms.

3.4.1 – Audit file findings noted on the visits of Non PIE audit firms

ISA 230 – Audit documentation, ISA 500 – Audit evidence & ISA 501 – Audit evidence – specific considerations for selected items

Documentation and evidence continue to be raised time and time again on QA visits. In particular the following areas were more commonly raised in our 2013 visits:

- Materiality thresholds – No documentation of any thresholds applied or the basis on which these have been arrived at.
- Inventories – Issues invariably arise mostly in relation to existence as well as valuation.
- Debtors and creditors – Very little documentation was available on audit files about the substantive testing carried out on debtor and creditor balances particularly in relation to possible impairment of debtor balances.
- Completeness of income and cost of sales – Audit testing of these two areas continues to be weak. Some audit procedures simply resort to reconciliation of nominal ledger figures to VAT returns when it comes to validating sales and cost of sales and nothing more. This gives very little audit comfort, if any at all;
- Professional scepticism – Impairment, fair values, sole reliance being placed on representations made by management or experts appointed by management. Very often audit files are laden with endless documents, with very little documentation as to what work was carried out by the auditor to assess the competence, integrity and independence of experts in order to dispel any management bias on such accounting estimates. Moreover, very often, there is very little evidence on file as to whether these valuations were challenged on the propriety of the assumptions applied in the financial models used for this purpose.

The golden rule to audit documentation is that documentation must be sufficient to enable an experienced (third) auditor to understand the audit procedures performed, the audit evidence obtained and any significant judgement applied.

ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements

Documentation of fraud considerations continues to be a weakness noted both at the planning stage and completion stage of the audit for a number of audit practices. Although in many practices, audit programs addressing fraud were found on audit files, in some instances these sections of the audit program were either discarded or not adequately completed.

ISA 260 – Communication with those charged with governance

Another weakness noted during the course of the QAU's visits was in relation to Management letters. It was noted that in a number of instances significant findings from the audit were not communicated with those charged with governance by way of a management letter. In many cases, the practice stated that significant findings were communicated verbally, however no documentation was found on file identifying the matters discussed. In particular, a number of situations were noted when the auditor included an audit report modification, and yet no documentation was found on file of the auditor's communication of this matter with those charged with governance.

ISA 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment

It was noted that on a number of files reviewed risks inherent to the audit client and its business were not adequately identified and documented. Also in a number of instances although risks were identified, sufficient appropriate audit evidence was not obtained to mitigate the risks so identified.

When one identifies the risks relevant to the audit client, the audit has much more focus to enable the audit work to be directed to all the risk areas identified. In doing so, the audit carried out will be conducted in a more efficient and effective manner ensuring that those areas which may be more prone to material misstatement will be better addressed during the course of the audit.

ISA 320 – Materiality in planning and performing an audit

The calculation of materiality and especially performance materiality is an area which still requires improvement. In a number of instances, on second cycle visits, this is still being overlooked by practitioners.

Materiality is a concept used at all stages of the audit. At the planning stage, when performing the detailed audit work itself, as well as when evaluating the effect of identified misstatements and uncorrected misstatements. Furthermore, materiality is used when the auditor forms an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting and auditing framework.

It was noted that on a number of audit files reviewed, performance materiality was not calculated. Revisions to such materiality calculations should be made if during the audit the auditor comes across information which could impact on such calculations.

ISA 550 – Related parties

Documentation on the work carried out to identify related parties and any related party transactions, and the completeness and accuracy of these transactions was particularly lacking on many of the audit files reviewed. In addition, documentation of related party testing and evidence of audit work carried out needed improvement.

ISA 570 – Going concern

This is one of the more commonly breached ISAs noted during the course of the QA visits. The documentation of ISA considerations both at the planning and completion stage of the audit continues to be weak. Although management is responsible to assess its ability to continue as a going concern, it is the auditor's responsibility to obtain sufficient appropriate audit evidence about the appropriateness of management's assertion of the going concern assumption and to conclude whether there existed a material uncertainty at the time of signing of the audit report about the entity's ability to continue as a going concern.

Although the QA reviewers are conscious of the fact that this is an area of professional judgement and that the auditor would have an in-depth understanding of their audit client, the audit files in a number of instances did not contain sufficient documentation to support the audit opinion given. Moreover it is important to re-iterate that even when it comes to professional judgement, auditors are required to document the basis on which they have arrived to that professional judgement.

ISA 580 – Written representations

Although in most instances it was noted that a signed representation letter was obtained, from review of the letter or representation it was noted that a number of representations as set out in ISA 580 were not incorporated in the letter.

3.4.2 – Whole practice matters non PIE audit practices

ISQC 1 - Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements

Another facet of the QA monitoring visit is to assess the internal quality control procedures adopted by the audit profession in the exercise of their profession. On an overall basis, documentation of ISQC 1 requirements is satisfactory. However it was noted that in some instances a small number of ISQC 1 requirements were not adequately included. Moreover, it was also noted that a number of practitioners fail to put into practice what they themselves set out in their manuals.

Ethical issues were raised on a few of the practices we visited. The more common breaches amongst auditors noted during 2013 related to the provision of non-audit services to non-public interest entities and long association with clients.

Maintaining competence is one other area considered by ISQC1. It is indeed sad to note a number of audit practitioners who repetitively fall short of their CPE obligations. EQCRs and ACRs are areas which are generally not looked with rigour and commitment.

3.4.3 - File findings noted on the visits of PIE audit firms

ISQC1 – Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements

There was one instance where the archiving date exceeded the 60 day period after the date of the auditor's report allowed for the timely assembly of the engagement file.

ISA 220 – Quality control for an audit of financial statements

The engagement partners' reviews of the PIE files selected used electronic sign-off. On one of the PIE audit firms visited, the selected the planning schedules of three of the audit files selected were not signed until the completion stage.

Issues raised by the firms' own internal practice review process, as indeed findings made by the QAU, including those of prior visits, were addressed by auditors of PIEs on a timely basis.

ISA 230 – Audit documentation

Planning was generally of good standard on all PIE audit firms visited in 2013. However, documentation in respect of fraud considerations required improvement at planning stage. A number of other documentation issues were noted at the audit fieldwork stage. The findings noted on the files reviewed were as follows:

- Documentation issues relating to work carried out on opening balances were noted on one of the PIE audit files reviewed.
- There was one instance on a PIE audit file where matters arising out of shareholder meetings and procedures performed to address related risks identified from a review of these meetings, which required improvement.
- Audit work on the movements on inter-company balances on a PIE audit file was not documented. On another non-PIE audit file pertaining to a PIE audit firm there was limited documentation of the identification of related parties and related party transactions.
- On another non – PIE audit file documentation on the recoverability of loans receivable required improvement.
- Parent company's exemption from Group consolidation was not documented in the audit file on a non-PIE entity.
- In a separate PIE audit file there was no documentation to support the audit client's compliance with corporate governance.
- Documentation pertaining to the audit work carried out on a PIE audit file in relation to contingent liabilities emanating from legal litigation required improvement.
- Going concern issues on a file of a PIE entity were adequately addressed at various stages of the audit but the file would have benefitted from a working paper bringing the issues identified together when drawing up proper conclusions on the matter.

ISA 300 – Planning an audit of financial statements

Planning was of good standard on the files reviewed. On one file, the planning consideration of going concern was not documented on the group audit programme in relation to the audit work that had to be performed on foreign subsidiaries.

ISA 620 – Reliance on the work of an auditor's expert

In the PIE audit file of one particular PIE audit firm there was inadequate evidence of the degree of professional scepticism applied to dispel possible management bias when auditing fair values placed on real estate. On a separate non-PIE audit file documentation in relation to the audit work carried out and the conclusion reached there from in relation to the carrying value of technical know how, required improvement.

3.4.4 - Audit reports - Non PIE Audit Entities

ISA 700 – Forming an opinion and reporting on financial statements

A number of audit reports reviewed during the year, did not reflect all ISA 700 requirements and in some cases used out of date terminology. More care is required in this regard and practitioners are reminded that ISA 700 includes illustrative audit reports for their guidance.

ISA 570 – Going concern

In addition to lack of adequate consideration of going concern matters within the audit files themselves, the QAU encountered a number of audit report matters arising in respect to going concern. In many instances it was noted that an emphasis of matter paragraph was included in the audit report, but adequate disclosures, as required by ISA 570 were not included in the financial statements and the emphasis of matter paragraph itself. ISA 570 is very explicit as to what information needs to be disclosed in the financial statements in this regard and practitioners are asked to revisit this standard to familiarise themselves with the requirements, should an emphasis of matter paragraph be required addressing going concern.

ISA 705 – Modifications to the opinion in the Independent Auditor's report

Small practitioners are still struggling with the ISA 705 qualification – particularly in relation to qualifications relating to limitation of scope, and its materiality and pervasiveness to the financial statements. The impact of year on year qualifications of this kind on the auditor's ability to continue the engagement, is an area which smaller practices do not quite grasp. The auditor's inability to attend the year end stock take is one qualification which features regularly under this heading, more often than not the auditor choosing to resort to modifying the audit opinion – with no alternative audit procedures being applied, even where it is clear that these could have be carried out.

Audit Compliance Reviews and Cold File Reviews

A number of instances were noted where an audit compliance review and cold file reviews were not being carried out in accordance with the guidance issued by the QAOC during February 2011. In summary the requirements are specified below:

Summary		**Audit Compliance Review**	
		Whole Practice Review	**Cold File Review**
Sole practitioner (with no audit staff)	**Frequency**	Once every 3 years (minimum)	Once every 3 years (minimum)
	Reviewer	Internal or External	External (not EQCR reviewer)
Sole practitioner (with audit staff)	**Frequency**	Annually	Once every 3 years (minimum)
	Reviewer	Internal or External	Internal or external (reviewer not involved on audit/EQCR)
Firm (with no audit staff)	**Frequency**	Annually	Annually (each partner once every 3 years - minimum)
	Reviewer	Internal or External	Internal or external (reviewer not involved on audit/EQCR)
Firm (with audit staff)	**Frequency**	Annually	Annually (each partner once every 3 years - minimum)
	Reviewer	Internal or External	Internal or external (reviewer not involved on audit/EQCR)

Practitioners are also reminded that when audit compliance reviews and cold file reviews are carried out, the finding identified from these reviews should be properly documented and a record kept of the action plan as to when and how these findings will be addressed by the practice.

SECTION 4 – ASSISTANCE FROM OTHER REGULATORY BODIES

4.1 Chartered Accountants Regulatory Board of Ireland (CARB)

The Chartered Accountants Regulatory Board of Ireland (CARB) through Ms. Heather Brier's presence and contribution at QAOC meetings has again been an invaluable aide to the QAU. Furthermore throughout the year, CARB provided ongoing assistance on technical matters as well as were present and assisted on a Big 4 visit carried out in 2013.

In addition, the QAU attended a team meeting held in Belfast during November 2013.

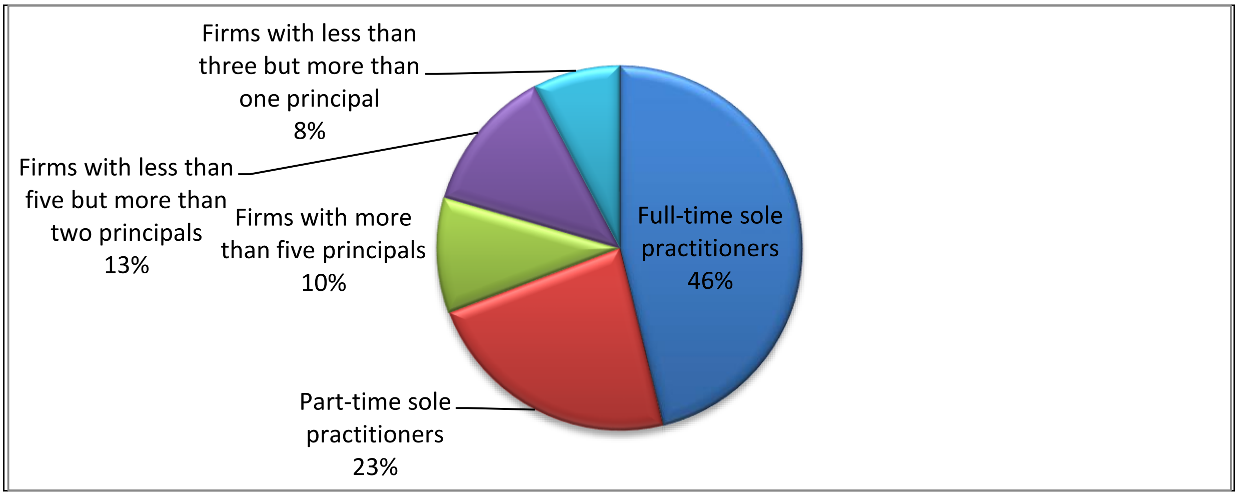
The Accountancy Board has just entered into a one year agreement with CARB to support the QA process.

SECTION 5 - PLANS FOR 2014

In the past few years, the number of visits carried out decreased significantly due to an acute staff shortage during the end of 2013, two new reviewers were appointed and commenced employment in January 2014. At present, they are being trained by the Unit's experienced reviewers.

As a result of this, it is expected that the number of visits to be carried out in 2014 will increase notably. The QAU is planning to carry out 40 visits in 2014. These are analysed in Figure 10 below.

Figure 10 – Analysis of the Composition of Visits intended by the QAU in 2014



The QAU, through the support of the QAOC and the Accountancy Board embraces the challenges ahead of it as a result of new audit and financial reporting regulation expected in 2014 and beyond. This it will achieve by:-

- Fostering alliances it has established with the ICAEW, ACCA and look into other areas of co-operation with other accountancy bodies providing audit oversight ;
- Working closely with other stakeholders within the educational sphere to assist audit practitioners in their Continued Professional Education needs;
- Working closely with the MIA in the area of quality assurance not only to maintain but also improve audit quality standards;
- Continuing to work closely with its European counterparts as indeed other international audit regulators;
- Working more closely with other local financial services regulators, financial supervisors as well other stakeholders within the field of audit and financial reporting regulation;
- Continue to advise and make recommendations to the Board in regard to the enforcement and compliance mechanisms;
- Create more public awareness of the Quality Assurance process;

- Advise the QAOC and the Accountancy Board on key issues in regard to audit regulation and other legislative changes; and
- Maintain and further develop the existing methodologies, the Accountancy Board portal, and other tools at its disposal.

Acronyms used

AB	-	Accountancy Board
ACCA	-	Association Chartered Certified Accountants (UK)
AuRC	-	Audit Regulatory Committee
CARB	-	Chartered Accountants Regulatory Board
CPE	-	Continued Professional Education
EAIG	-	European Audit Inspections Group
EGAOB	-	European Group of Audit Regulators
IAASB	-	International Auditing and Accounting Standards Board
ICAEW	-	Institute of Chartered Accountants of England and Wales
IFIAR	-	International Forum of Independent Audit Regulators
ISAs	-	International Standards on Auditing
ISQC 1	-	International Standards on Quality Control
MIA	-	Malta Institute of Accountants
PIE	-	Public Interest Entity
QA	-	Quality Assurance
QAU	-	Quality Assurance Unit
QAOC	-	Quality Assurance Oversight Committee
SME	-	Small and Medium Entity