

In Practice News

Auditors need to improve their challenge of management urgently

05 November 2019

Audit quality is still not consistently reaching the necessary high standards expected, according to the Financial Reporting Council's (FRC) Developments in Audit report, particularly when challenging management and performing routine procedures such as revenue recognition.

AQR inspection reports show that auditors continue to struggle most with challenging management sufficiently, especially in more judgemental areas, such as long-term contracts, goodwill impairment or the valuation of financial instruments.

The inherent uncertainty and high potential financial impact of these issues mean the importance of robust, specific and independent challenge is vital.

Other shortcomings were identified in more routine audit procedures - notably in relation to revenue recognition, which is typically a key metric considered by users of financial statements.

This year's Developments in Audit also spotlights the FRC's assessment of auditors' work on internal controls. The FRC found too many auditors were not properly identifying relevant controls in areas of significant risk or were not adapting their audit approaches sufficiently when controls were found to be deficient.

A closer analysis of inspection results also revealed:

- year-on-year familiarity with audited entities can lead to the same audit approach being followed even when changes in the business or trading environment demand a different strategy;

- too often, audit teams appear prepared to accept what management tells them rather than questioning its plausibility and drawing on specialists to form their own view; and
- audit teams too regularly accept unrealistic deadlines resulting in inadequate work.

Over the past two inspection cycles, the FRC's Audit Quality Review team has referred 17 audits for potential Enforcement action and investigations have been opened in ten of those cases.

And in the past year, the FRC's wider enforcement activity has seen a near trebling of fines from £15.5m in 2017/18 to £42.9m in 2018/19 and a far greater use and range of non-financial sanctions, rising from 11 in 2017/18 to 38 in 2018/2019.

Source: www.frc.org.uk/news

Guidance Notes

Guidance Note on the Audit of Credit Unions - October 2019

IAASA has issued a Guidance Note 02/2019 on The Audit of Credit Unions. IAASA has also released a Feedback Paper on the responses received to its Consultation Paper.

Source: www.iaasa.ie

Guidance on Control Requirements for Statutory Audit Firms October 2019

CPA Guidance has issued outlining the control requirements for statutory audit firms. In essence a statutory audit firm must be controlled by statutory auditors to ensure that the standard and quality of the delivery of statutory audit services is not influenced by non-audit partners/principals/directors or shareholders in the firm.

The control of the firm by statutory auditors must be considered in terms of control of voting rights and also by reference to majority headcount. For further details please visit www.cpaireland.ie/cpaireland/media/professional-standards

Important Notice - Changes to Eligibility Criteria for Audit Qualification

Members and students are advised of changes being made to CPA Ireland's Bye Law 13, Practice and Audit Regulations.

It is expected that these revised Bye Laws will become effective from **1st January 2020**.

Some of the key changes are in the area of the eligibility criteria for audit qualification. **If you are considering making an application for audit qualification to enable you to act as a statutory auditor in the future, you should be aware of some significant changes in this regard and plan your training accordingly.**

The key change to the training requirement for statutory audit is to the extent of training required in the area of statutory audit. Under the revised Bye Law, a candidate is required to

complete a **minimum of three years training** working under the direct supervision of a Statutory Auditor, **at least two of which must be post admission to membership of CPA**. A substantial part of such practical training shall be in statutory audit work and **at least forty weeks** of such practical training shall be completed post admission to membership in statutory audit, supervised by a statutory auditor.

Applicants for audit qualification must also meet the educational requirements of Schedule 19 of the Companies Act 2014. A review of a candidate's examinations completed and exemptions granted will also be conducted.

For further details please visit cpaireland.ie.