The Quality Assurance Process

by Alan Bailie

Despite the ongoing impact of Covid-19 the Institute's quality assurance activity is continuing, albeit remotely. The Quality Assurance Process has been in existence since 1995 and is set out in Bye Law 7 – Quality Assurance (Effective 23 March 2020). Part 27 of the Companies Act 2014 also provides a statutory basis for the regulation of Statutory Auditors and Statutory Audit firms.
In this article, Alan Bailie former Knowledge Manager and Quality Assurance Executive with CPA Ireland examines some practical steps that a firm can take to help ensure a successful conclusion to a quality assurance visit.

Quality Assurance Process

Company law requires that a Statutory Auditor and Statutory Audit firms be reviewed, on a risk basis, at least once every six years[1]. Non-audit firms are reviewed on a risk basis and the expectation is that non-audit firms will be reviewed on a ten-year cycle in accordance with Bye Law 7[2]. Initial reviews of newly established Statutory Audit and Non-Audit firms may be conducted within eighteen months of registration.

A monitoring visit can be broken down into three distinct phases:

a. The planning period in advance of a review

b. The review of engagement files and information provided

c. Post review period/follow-up

Firms are generally given notice of a quality assurance monitoring visit 4-6 weeks in advance. The notice will be issued by e-mail to the compliance principal and will include links to information outlining the format of the day.

Impact of Covid-19

As we continue to deal with the ongoing impact of Covid-19 quality assurance reviews are currently being conducted remotely and Government advice in this regard continues to be monitored.

While the process itself hasn't changed, the carrying out of reviews remotely has lengthened the process both for the Institute and indeed the firms themselves.

Both the opening and closing meetings will be conducted virtually using technology such as Microsoft teams or zoom. Following the opening meeting firms will be required to arrange for the transfer of information and the files selected for review. There are a number of options available in relation to the secure transfer of files:

- Files may be sent remotely/electronically;
- Files may be sent by courier; or
- Files may be delivered to the Quality Assurance Officer by arrangement

Planning

"By failing to prepare, you are preparing to fail" (Benjamin Franklin).

In reality planning for your next monitoring visit begins on the day that your last visit was completed. A firms' policies and procedures should be updated on an ongoing basis to reflect changes in relevant professional standards and the regulatory environment in which it operates as part of the firms' overall quality control procedures. The following are some of the areas that a firm should be aware of when preparing for a monitoring visit.

ISQC (Ireland) 1

A statutory audit firm is required to establish and maintain a system of quality control to provide it with reasonable assurance that it complies with professional standards, legal and regulatory requirements and that reports issued are appropriate.

Firms should review the firms' ISQC1 to ensure it reflects the requirements of the most recent version[3] issued by the Irish Auditing and Accounting Supervisory Authority (IAASA). Additionally, firms should ensure that the document is appropriately tailored to the circumstances of the firm and reflects current work practices.

Client listing

Advances in technology have resulted in more information being available to a quality assurance officer. Firms should therefore carry out a detailed review of their client listing, points to consider include:

- The completeness and accuracy of the listing;
- Overall client profile and sectors in which the firms' clients operate.
- The retail sector (particularly involving discretionary spending) and the travel, hospitality and leisure sector are examples of some priority sectors which may be the focus of a quality assurance officer as we move through

1 Section 1496(1)(h) Companies Act 2014
2 Paragraph 7.12.2 Bye Law – Quality Assurance (23 March 2020)
3 ISCQ (Ireland) 1 (Revised November 2020)

2021 and beyond due to the ongoing impact of Covid-19;

- Have the correct auditor resignation procedures been followed?
- Does the firm have regulated clients such as Credit Unions, Investment Intermediaries and other businesses regulated by the Central Bank of Ireland and Charities? A Quality Assurance Officer will adopt a risk-based approach to file selection and as such regulated clients will be of particular interest;
- Has the firm issued any modified audit opinions and/or do any auditors reports include any emphasis of matter paragraphs? In the context of Covid-19 material uncertainty related to going concern paragraphs are likely to be a particular focus for quality assurance officers.

Firms should note that a quality assurance officer has access to the public record of audit reports filed using the firms' auditor registration number (ARN). Particular attention should therefore be paid by Statutory Auditors and Statutory Audit firms to the completeness of the client listing provided.

The maintenance of adequate client records is a requirement of Section1543 of the Companies Act 2014. The provision of incomplete client listings/ non-disclosure of clients may result in a referral to the Director of Professional Standards and may result in disciplinary action in accordance with Bye Law 6.

Annual Compliance Review

Statutory Auditors and Statutory Audit Firms are required to carry out an annual compliance review at least once annually[4]. The review monitors how effectively the firm is complying with Institute Bye Laws and other relevant professional standards. It comprises the following two elements;

- Whole firm review
- Cold file review

The whole firm review entails assessing the firms' compliance with Bye Law 13 in areas such as;

- Independence
- Fit and proper status
- Competence
- Appointment and re-appointment
- Professional indemnity insurance
- Continuing eligibility

The second element requires a cold file review of completed audit work on an annual basis to assess whether the statutory auditor or statutory audit firm's audit procedures were followed. A minimum of one file for each statutory auditor within the firm should be reviewed.

Firms should adopt a risk-based approach to file selection considering factors such as high-risk clients, changes to auditing or accounting standards and employee turnover. Cold reviews must be carried out by another Statutory Auditor or training firm recognised by the Institute.

Depending on the period that has elapsed since the firms' last monitoring visit, up to six annual compliance reviews should be available for inspection. However, in practice the monitoring visit is likely to focus on the two most recent annual compliance reviews.

Documentation

An auditor has 60 days from the date of the auditor's report to assemble the final audit file[5]. While the administrative process does not involve the performance of new audit procedures or drawing new conclusions it could include:

- Removal of superseded documentation;
- Cross referencing of working papers;
- The signing off on completion checklists relating to the file assembly process; and
- Documenting audit evidence that the auditor has obtained, discussed and agreed with members of the engagement team before the date of the auditor's report.

Firms should therefore review recently completed audit files and where necessary complete the final assembly of those files in advance within the permitted timeframe.

Continuing Professional Development

Compliance with Bye Law 8 CPD (Continuing Professional Development) will be assessed as part of a firms' quality assurance visit. Firms should ensure that CPD records, including a full list of courses attended together with supporting documentation, for all partners and senior staff are available for the last two years.

CPD activity should be relevant to the role(s) undertaken and the services provided. The CPD records of Statutory Auditors should demonstrate compliance with both the requirements of the Companies Act 2014[6], and the International Education Standard (IES) 8 Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised).

The Companies Act 2014 requires a statutory auditor to take part in appropriate programmes of continuing education in order to maintain his or her theoretical knowledge, professional skills and values at a sufficiently high level.

Table A of IES 8 sets out the learning outcomes across a range of competence areas, including technical competence, professional skills and professional values, ethics and attitudes, for which an engagement partner is required to demonstrate how they have developed and maintained professional competence in those areas.

Additional requirements regarding the maintenance of CPD records will commence in January 2022 as provided for by IAASA's Guidelines for the RABs on the regulation, monitoring and enforcement of continuing education for statutory auditors. Members will be advised accordingly.

4 Para 13.34.1, Bye Law 13 – Practice & Audit Regulations
5 Para 14 ISA (Ireland) 230 Audit Documentation
6 Section 1489 Companies Act 2014

Anti-money laundering compliance

The area of anti-money laundering has seen significant change in recent years as Ireland implements the requirements of various EU Directives[7] into Irish Law. A firms' compliance with the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 as amended (the Act) falls within the scope of the quality assurance process.

A review should be undertaken of the firms' policies and procedures to ensure that they are up to date and that they include the policies, controls and procedures as set out in Section 54(3) of the Act.

The Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2018[8] introduced a new requirement for a designated person to carry out a business risk assessment and to keep that risk assessment up to date. The risk assessment must be documented, approved by senior management and at a minimum take account of the following risk factors:

- Type of customer;
- Products and services provided;
- Geographic risk;
- Delivery channels

The business risk assessment should be used by a firm in determining the extent of the measures to be taken for customer due diligence procedures, as such firms should ensure that a business risk assessment has been documented and has been kept up to date. Other factors to be considered include:

- Has the firm identified all of its client base for money laundering purposes;
- Has enhanced due diligence been carried out where required, for example politically exposed persons (PEP's) or high-risk clients?
- Is there evidence of ongoing monitoring of dealings with clients;
- Has the firm appointed a Money Laundering Reporting Officer (MLRO); and
- Has the firm provided training to relevant staff members?

Review of standing information held

Review the accuracy of the information that the Institute holds on the firm for example from its' last annual return. Have there been any changes that have not been notified to the Institute? for example, the admission or cessation of a new partner or incorporation of the practice. Where necessary communicate those changes to the Professional Standards Department.

Bye-Laws

As a firms' compliance with Institute Bye Laws is within the scope of a quality assurance visit, firms should be aware of their obligations under relevant Bye Laws including

- Bye Law 7 - Quality Assurance
- Bye Law 8 - Continuing Professional Education
- Bye Law 9 - Professional Indemnity Insurance
- Bye Law 13 - Practice and Audit Regulations
- Bye Law 4 - Client Monies
- Bye Law 14 – Investment Business, where relevant

In particular firms should be aware of recent changes with Bye Laws 6 - Discipline, 7 – Quality Assurance and 13 – Practice and audit Regulations all having been updated recently.

Follow-up

A firm will be provided with a full written report on the findings of the visit, including the outcome of the review.

The report may also include recommendations, directions or restrictions imposed on a firms' registration, for example a requirement to have an external cold file review carried out or to obtain training in one or more areas to address any weaknesses noted.

When responding to the quality assurance report a good response will clearly set out the reason(s) why the issue has arisen, and how the firm intends to address the matter in the future including a timeframe in which it will be addressed.

With regard to any recommendations, directions or restrictions placed on the firms' registration it is important to ensure that these are implemented within a reasonable period, as failure to do so may result in disciplinary action in accordance with Bye Law 6.

Conclusion

As the saying goes "you get out of it what you put in" the same can be applied to your quality assurance visit. Through proper planning and addressing relevant matters noted above a firm can help ensure a successful outcome to its quality assurance visit, thereby reducing the time spent in the post review period and avoiding potentially costly restrictions being placed on the firm's registration.

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7 Directive (EU) 2015/849 (4th anti-money laundering Directive), Directive (EU) 2018/843 (5th anti-money laundering Directive)
8 Section 10 Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2018