



The September Fest 2020

Technical Stream

Monitoring Visits in a Covid-19 World

Presenter:

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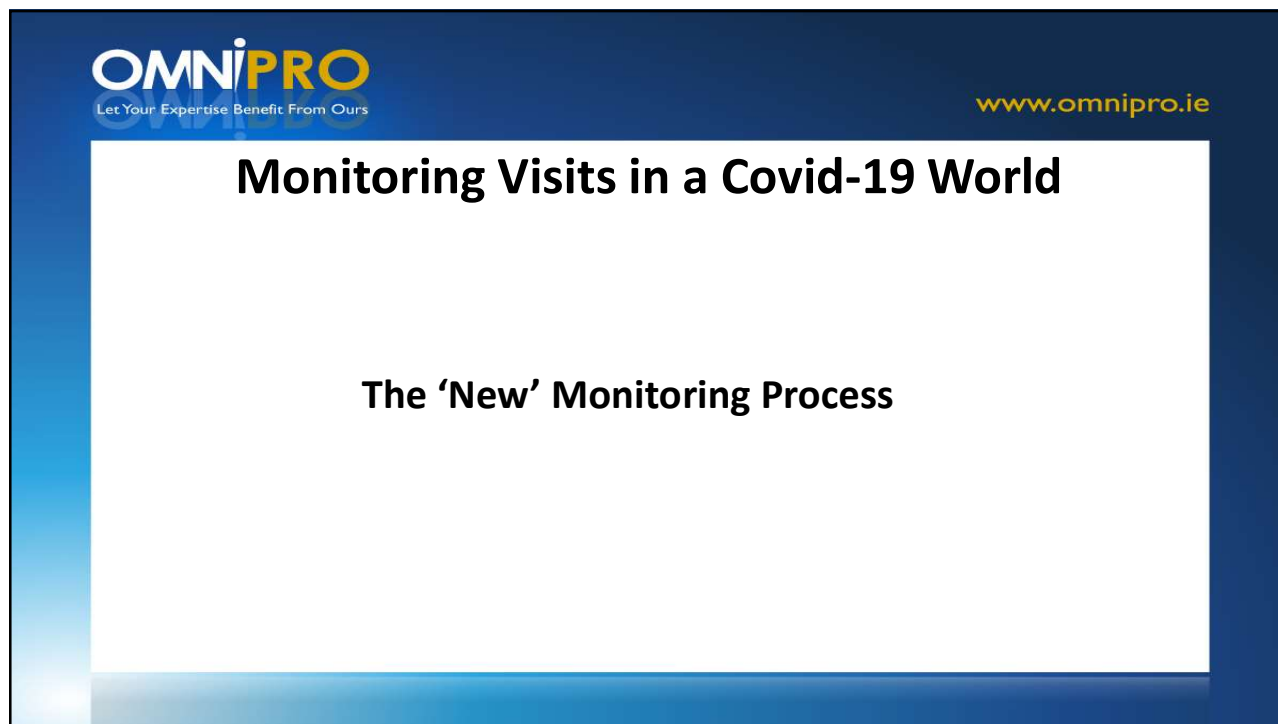
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Monitoring Visits in a Covid-19 World

- Topic 1 An Overview of the 'New' Monitoring Process
- Topic 2 The Whole Firm Review Process and top whole firm issues
- Topic 3 Anti-Money Laundering Review
- Topic 4 Top Audit File Issues
- Topic 5 The Post Monitoring Process

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Monitoring Visits in a Covid-19 World

The 'New' Monitoring Process

This slide features a dark blue header with the OMNIⁱPRO logo and tagline on the left, and the website URL on the right. The main content area is white with a blue gradient bar at the bottom. The title 'Monitoring Visits in a Covid-19 World' is centered in a large, bold, black font, followed by the subtitle 'The 'New' Monitoring Process' in a slightly smaller, bold, black font.

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The 'New' Monitoring Process

- All Institutes are actively engaging with firms;
- Pressure from IAASA to keep to visit targets;
- No on-site monitoring visits;
- Remote / off-site monitoring visits;
 - CAI / CPA / ACCA

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The 'New' Monitoring Process

'New' Process

- Initial correspondence & pre-visit information request;
- Opening meeting (via telephone or video call etc);
- Submission of files;
- Off-site file reviews;
 - Issuing and clearance of queries;
- Final Closing meeting;

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The 'New' Monitoring Process

Potential issues

- Visit will take longer to close;
- Little / no interaction with reviewer;
- File transfer issues.

Potential Opportunities

- More time to prepare?

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The 'New' Monitoring Process

- Institute Bye Laws & Regulations
- International Standard on Quality Control
- The Ethical Standards – IFAC Code & IAASA
- International Standards on Auditing, Financial Reporting Standards, Company Law
- Companies Acts & other legislation
- Anti Money Laundering
- Practicing Certificate Regulations
- Professional Indemnity Insurance Regulations
- Clients' Money Regulations
- Continuing Professional Development Regulations
- Institute Guidance Documents and help sheets


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The 'New' Monitoring Process

Reasons for Selection

- 6 Year Visit Cycle / Accelerated visit cycle
- Targeted or Random?
- Primarily based on Annual Returns
- Can be based on Specific Complaints from Third Parties
- Possibility to defer (Covid-19)?

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The 'New' Monitoring Process


Pre-Monitoring Visit

Pre-Monitoring Questionnaire

- a) Clients listed by RI
- b) Top clients by Turnover
- c) Top clients by largest fee

- Submission of Whole Firm information (to assist with remote visit);
- Summary findings of Last Annual Compliance Review;
- Client Analysis – Current list / Vision Net/Search4Less & previous Annual Return

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Monitoring Visits in a Covid-19 World

The Whole Firm Review Process and top whole firm issues

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The Whole Firm Review Process – The Visit Process

1. Opening Meeting – via Zoom or telephone

- General Understanding
- Significant Issues
- Quality Controls
- Compliance Reviews
- Client profiling
- Nature & Extent of Activities
- Staff Profile
- Roles & responsibilities
- CPD Documentation / IES8
- Annual Return
- PII
- Complaints
- Accounts
- Commission Statements
- Anti Money Laundering
- Competence & Ability

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The Whole Firm Review Process – The Visit Process

2. Specific Areas of Focus – reviewed pre-visit from re-visit submission

- | | |
|--|--|
| a) Practice Documentation | b) Ethical Risks Identified |
| i. ISQC Manual | c) Key Audit Clients Reviewed (minimum 1 per RI) |
| ii. Fit and Proper declarations by staff | b) Trading |
| iii. Details of CPD completed | c) Limited by guarantee |
| iv. IES 8 (Revised) | d) Regulated |
| v. PI Policy and Proposal | e) Others |
| vi. Firm Letterhead | d) Qualified or Modified Reports |
| vii. Continuity of Practice Agreement | e) Clients' Monies Compliance Review |
| viii. Latest Annual Compliance Review | f) AML Compliance Review |
| ix. AML Manual | |

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The Whole Firm Review Process – The Visit Process

3. Closing Meeting – via Zoon or telephone
 - a) Closing Meeting Discussion
 - b) Present the findings
 - c) Confirm accuracy of factual deficiencies
 - d) Discuss the implications
 - e) Discuss the rectification

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The Whole Firm Review Process – Top issues

1. ISQC Manual not tailored appropriately
2. Insufficient CPD completed in core area
3. IES 8 (Revised) not considered to date by firms
4. Independence, fit and proper forms not completed by RI
5. Alternate agreements with Individuals who do not hold audit certs

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The Whole Firm Review Process – Top issues

6. ACRs not completed or no issues identified
7. No AML procedures / Client IDs not up to date
8. RI review process
9. Incorrect references on firm letterhead
10. Inadequate levels of PI cover

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The Whole Firm Review Process – Top issues

- Provision of information
 - Annual Return
 - Inaccurate disclosure of audit client numbers, in particular regulated audit clients
 - Pre-visit information
 - Inaccurate disclosure of audit clients numbers, in particular omission of auditor's report signed in the last 12 months
 - Important to review total list of audit clients and have reasons for any omissions
 - Inaccuracies may result in the imposition of regulatory penalties

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The Whole Firm Review Process – Top issues

Audit Procedures and financial statements disclosure;

- Appropriate up to date audit procedures in place;
- Procedures should be tailored (to address regulated/specialist audit clients);
- Firms should ensure they have in place adequate audit procedures to evaluate the adequacy of presentation and disclosure in the financial statements;
- Ensure staff training on how to use audit procedures and disclosure checklists;
- Ensure that the procedures are applied consistently across all audit files;
- Lack of adherence to audit procedures is commonly identified as a cause of issues raised on audit monitoring visits.

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The Whole Firm Review Process – Top issues

- ISQC Manual
 - Not updated for new ISAs (Ireland)
 - New Points
 - Section 403 of Companies Act 2014 - notify IAASA regarding its cessation of office
 - Section 934I (3) of Companies Act 2014 – Whistle-blowers facility for staff to inform institute and IAASA on the audit firm
 - Not appropriately tailored or the specifics of the firm
 - Independence, fit and proper declarations not signed (completed annually)
 - Complaints register not updated

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The Whole Firm Review Process – Top issues

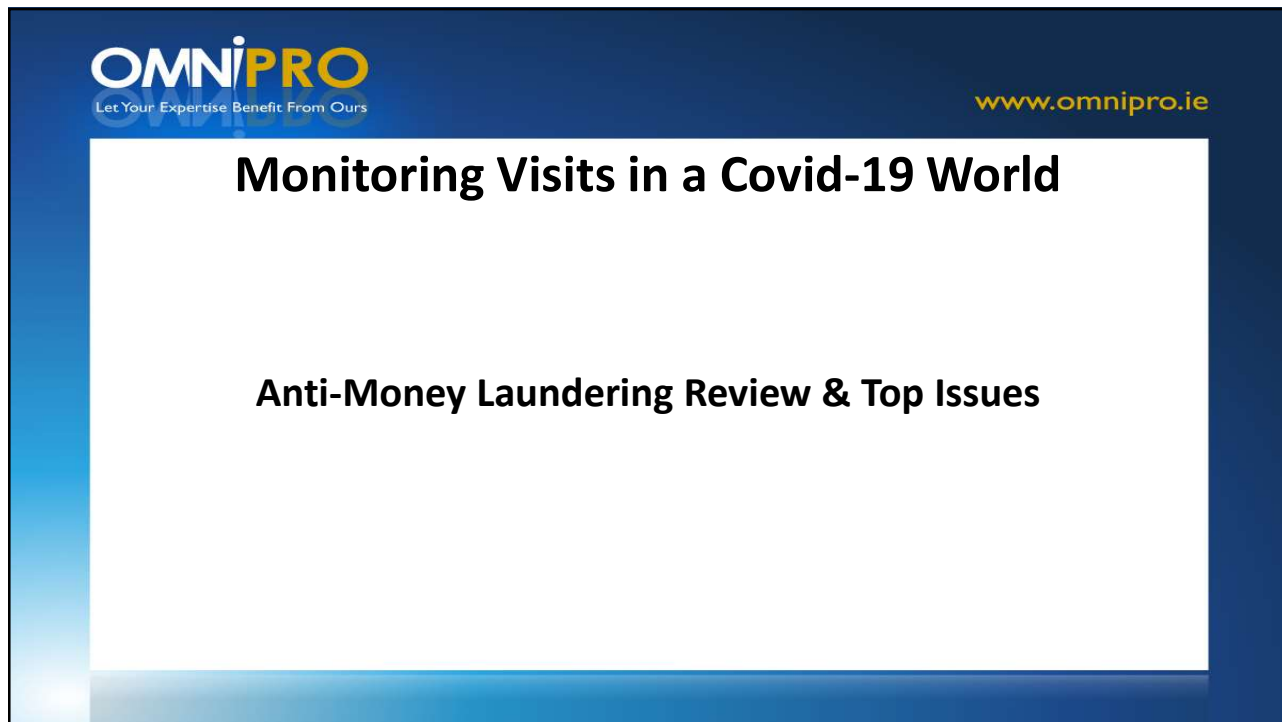
- Annual Compliance Review
 - Not carried out annually (within 12 months of previous ACR)
 - Incomplete ACR (either no CFRs or no WFR)
 - Cold File Review selection; not covering all RI's or not a representative sample of firm's audit client base
 - Insufficient corrective action taken; repeat issues noted on following year ACR
 - ACR not sufficiently challenging / robust / objective

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The Whole Firm Review Process – Top issues

- CPD
 - Non application of IES 8 (Revised) (now included as part of Audit Regs)
 - Engagement Partners will be required to develop and maintain professional competence required for the role that is demonstrated by the achievement of learning outcomes from CPD undertaken
 - Obtaining mandatory total & audit-related CPD requirements
 - Insufficient audit specific CPD in 'areas of relevance'
 - Weaknesses on audit files as a result of audit competence

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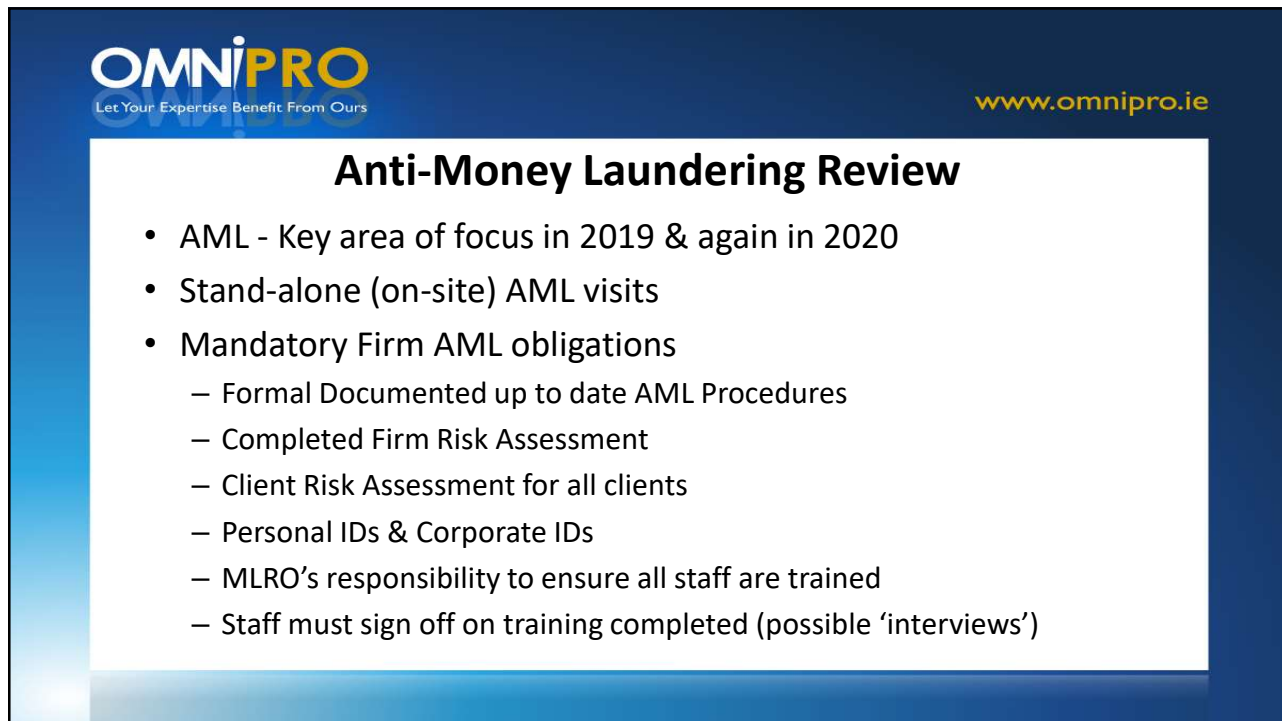
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Anti-Money Laundering Review & Top Issues

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Anti-Money Laundering Review

- AML - Key area of focus in 2019 & again in 2020
- Stand-alone (on-site) AML visits
- Mandatory Firm AML obligations
 - Formal Documented up to date AML Procedures
 - Completed Firm Risk Assessment
 - Client Risk Assessment for all clients
 - Personal IDs & Corporate IDs
 - MLRO's responsibility to ensure all staff are trained
 - Staff must sign off on training completed (possible 'interviews')

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Anti-Money Laundering Review

Customer Due Diligence & Risk Assessment – Review of AML files


- No client risk assessment / no conclusion recorded
- Inadequate Customer Due Diligence – KYC/KYB
- Not applying the correct CDD – standard / enhanced
- Out of date ID documents
- ID documents not noted as being 'copy of original'

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Anti-Money Laundering Review

- Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2018
 - Increased focus on Risk Assessment
 - Reduction in threshold for Beneficial Owners
 - Introduction of domestic PEPs (definition of PEP expanded)
 - Third Party reliance agreements
 - High Value Goods Sector threshold reduced
 - Centralised EU Sanctions List
 - Competent Authorities may impose additional obligations

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Top Audit File Issues

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Top Audit File Issues

1. Lack of RI Review	7. Going concern
2. Applying Audit Procedures	8. Related Party Disclosures
3. Financial Statements	9. Debtor procedures
4. Ethical Issues	10. Charity Audits
5. Verification of Title	11. Completeness of Income
6. Bank Confirmations	12. Use of Experts V's Service Organisation

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Top Audit File Issues

Audit evidence and documentation;

- Firms should ensure that there is sufficient documentation in all areas of the audit file and that sufficient appropriate audit evidence has been obtained (audit documentation (ISA 230) & audit evidence (ISA 500));
- Where firms state that audit work was performed as part of accounts preparation procedures - audit files must clearly demonstrate the audit work performed;
 - Lack of evidence on the audit file of audit work having been performed;
 - Firm states that audit work was carried out but not documented;
 - Firms will be asked to provide additional evidence to corroborate the explanations provided.
- Where the firm cannot provide such additional evidence will result in a breach of ISA 500 (audit evidence).

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Top Audit Issues – Financial Statements

Financial Statements

- Over reliance on financial reporting / accounting packages
- Lack of / lack of use of financial statements disclosure checklists or other form of reference material (i.e. proforma accounts)
- Over reliance on staff – none or not effective RI review process

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Top Audit Issues – Financial Statements

Importance of good quality financial reporting / financial statements

- In audit (& non-audit) visits, poor financial reporting / financial statements can result in a file or a visit to fail
- In an audit context, AR 3.10, ISA 330 (para 24) states 'The auditor shall perform sufficient audit procedures to evaluate whether the overall presentation of the financial statements, including related disclosures, is in accordance with the applicable financial reporting framework. (Ref: Para. A59)'
- Procedures in place to evidence how the firm has complied with ISA 330 (checklists / other reference material / review process)

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Top Audit Issues – Financial Statements

Examples of top financial statement disclosure issues;

Director's Report Issues – not disclosing;

- Director's interests in share capital of company and group companies;
- Post balance sheet events;
- Statement on Relevant Audit information;
- Principal risks & uncertainties – generic description;
- Review of business – either omitted or not sufficient (generic);
- Not including all the CA 2014 required elements (reliance on accounting package)

Audit Report Issues - Formats not updated for new ISAs (Ireland) & Audit report signature errors;

Accounting Policies Issues - Not tailoring accounting policies (either too much or too little)

Notes to the Financial Statements Issues;

- Fixed assets – no disclosure on valuations and on leased assets;
- Investments – no disclosure of information on subsidiaries etc;
- Provisions – not separately disclosed & no note / information;
- Ultimate controlling party not disclosed;
- Related party disclosures – not sufficient or complete / no disclosure of principle conditions.

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Top Audit Issues – Ethical Issues

- Independence Issues
 - Not identifying potential issues (acting when not permitted / financial interest in audit client)
 - Not addressing issues appropriately
 - Ethical Standards issues (long association / fee dependence / provision of non-audit services)
 - Not identifying the risk
 - Not applying appropriate safeguards

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Top Audit File Issues - Verification of Title

- Verification of Title
 - Audit file does not have copies of title deeds,
 - Firm to demonstrate some work to verify the validity of older documents that assets are still in ownership of entity
 - Documented enquiry of management (mins, LOR)
 - Search of the Public Record
 - Land Registry search's
 - Bank or Solicitors confirmation, confirming retention of title
 - Has the asset been inspected and fit for purpose?

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Top Audit File Issues – Bank Confirmations

- Not sufficient to rely solely on a bank statement in the absence of the bank confirm
- The auditor must document the alternative procedures done
- What does a bank confirmation provide to me
 - Independent confirmation existence & valuation
 - All accounts open and closed during the period with that bank
 - Details of any securities held by the bank
 - Are bank accounts DIRT exempt
 - Loans with the institute and terms of credit lending
 - Any Contingent Liabilities

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Top Audit File Issues – Related Party Transactions

- Still a focus area (as firms get it wrong);
- Firm's need to show how addressed; Accuracy / Completeness / Recoverability
- Written confirmation on transactions and year-end balances;
- Copy of accounts / extracts from accounts of related party / group companies;
- Insufficient identification and disclosure of related party transactions
 - Nature of transactions / amounts of transactions & principal terms & conditions
 - Exemption to disclose transactions between wholly owned subs of a group incorrectly applied and considered in the audit file
 - Insufficient disclosure of S305-312 obligations under CA2014 in Financial statements (including companies under common control / ownership but not in a group structure)

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Top Audit File Issues Debtor Circularisation

- Audit evidence is more reliable when it is obtained;
 - from independent sources outside the entity; and
 - directly by the auditor as opposed to indirectly or by inference. (ISA 500)
- The purposes of sending out debtors circularisation letter is to verify the existence of debtor balances.

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Top Audit File Issues Debtor Circularisation

- **Issues arising;**
 - Reasons why not carried out, not documented;
 - If not carried out, alternative procedures to address existence not carried out / documented
 - Results and conclusion of work not recorded;
 - Not following up on non-replies.
- In the case of non-responses, the auditor shall perform alternative audit procedures. (ISA 505)

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Top Audit File Issues – Regulated Entities

- Knowledge of the Entity
 - CBI – authorisations held / reporting requirements / audit work to be carried out
 - Charities – M&A / funding / CRA registration
 - Accounting systems & internal controls (fit for purpose (charity)) / walk-through tests
- Letter of Engagement – tailored (legislative references / regulatory reporting obligation / Third party reporting)
- Reviewed communications with regulator & if regulator performed an inspection of the client and has the auditor reviewed the findings from that inspection;
- Audit work addressing regulatory / specialist nature of audit / client;
- Tailored audit programme (addressing completeness of income etc).

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Top Audit File Issues – Going Concern

- **Going concern disclosures**
 - Not fully compliant with ISA 570 (para 19)
 - Disclose the principal events / conditions;
 - Disclose mgmts.' plans to address going concern issues going forward;
 - Disclose that there is a 'material uncertainty' & 'that it may be unable to realise its assets and discharge its liabilities in the normal course of business'
- **Audit work on going concern**
 - Checklist / template driven
 - No evidence of audit work on file (cash flows / budgets)
 - No evidence of evaluation of accounting records

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Top Audit File Issues – Going Concern

- Going concern will continue to be an area of focus in 2020, especially after IAASA having issued the revised standard on going concern (ISA 570 (Revised)) in October 2019.
- This revised standard on Going Concern will result in additional audit work and evidence gathering for auditors;
- Auditors will be required to 'Evaluate the Sufficiency and Appropriateness of Audit Evidence Obtained';
- Effective for audits of financial statements for periods commencing on or after 15 December 2019 (year ends 31 December 2020); however, early adoption encouraged;
- Comes after the FRC revealed that among the key reasons for launching an investigation into the collapse of Thomas Cook were 'issues around going concern and goodwill impairment.'

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Top Audit File Issues – Going Concern

Going concern;

- Going concern is an audit area where firms often have to make difficult judgements in reaching conclusions.
- Firms should ensure that:
 - audit work performed on going concern is appropriately documented;
 - sufficient, appropriate audit evidence is obtained about the appropriateness of management's use of the going concern basis of accounting; and
 - to conclude, based on the audit evidence obtained, whether a material uncertainty exists; and
 - whether disclosures in relation to going concern in the financial statements are adequate.
- In the current pandemic, many clients will be facing significant uncertainty regarding going concern. Firms should ensure that they exercise appropriate professional scepticism when forming conclusions regarding going concern.

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Top Audit File Issues – Completeness of Income

Adequately addressing completeness of income

The completeness of income concept is seen as one of the key audit assertions;

It is regularly focused on in monitoring visits and it is the area where firm's fall down on;

The auditor should consider all elements of income and the entity's controls to record income in the period and should assess the risk that income will not be recorded by the entity and perform tests to address the risks identified;

The mistake firms make is to concluded that they have addressed completeness of income without having the appropriate back-up documentation on file supporting the conclusion (e.g. no walk-through testing carried out (to assess the controls in place), inadequate analytical review of income, limited sample testing of sales invoices and limited cut-off testing carried out).

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Top Audit File Issues – Completeness of Income

Suggested Responses to address the Risk that Income may be Materially Misstated (Completeness of Income)

- We will consider the testing performed and results of that testing in conjunction with any points brought forward from the previous years file.
- All of the systems and information systems of the company will be documented in full at the planning stage of the audit with a specific focus on the sales and income aspects of the system.
- Walk through testing to be performed on all elements of the sales system to prove that system operates as documented.
- Key controls to be tested on an appropriate sampling basis.
- Detailed initial analytical review to be performed.
- Based on documentation of systems and information systems, walk through testing, control testing and detailed initial analytical review risk will be formally assessed in relation to completeness of income.
- We will consider the impact of cash sales (if any) and perform cash sales reconciliations etc.
- Throughout all transaction and substantive testing being performed on all elements of the audit the possibility of management override and staff theft or fraud will also be considered.
- An overall sales reconciliation will be performed.
- Sales cut off testing will be performed
- As part of the final analytical review a sales mix analysis and margin review will be performed.

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Top Audit File Issues – Mgmt Expert / Use of Experts / Service Organisations

Stock counter's / Stock brokers / Property Valuer / Property Management Services Organisation etc

- Management expert (ISA 500) – evaluate reliability of the expert / reports etc;
- Use of an Expert (ISA 620) - the auditor appointed the person independent to the client.
 - Auditors Instructions issued and a copy on the file
 - Expert confirms to the auditor their independence to client
- Service Organisations (ISA 402) – the client appointed the person to perform the work
 - Auditor must assess the service organisations controls and processes in performing the work on behalf of client to be able to place reliance on the information supplied
 - Auditor must assess the service organisations independence and objectivity to the client and ability to perform the required function (as the service organisation was appointed by the client)

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The Post Monitoring Process

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Post Monitoring

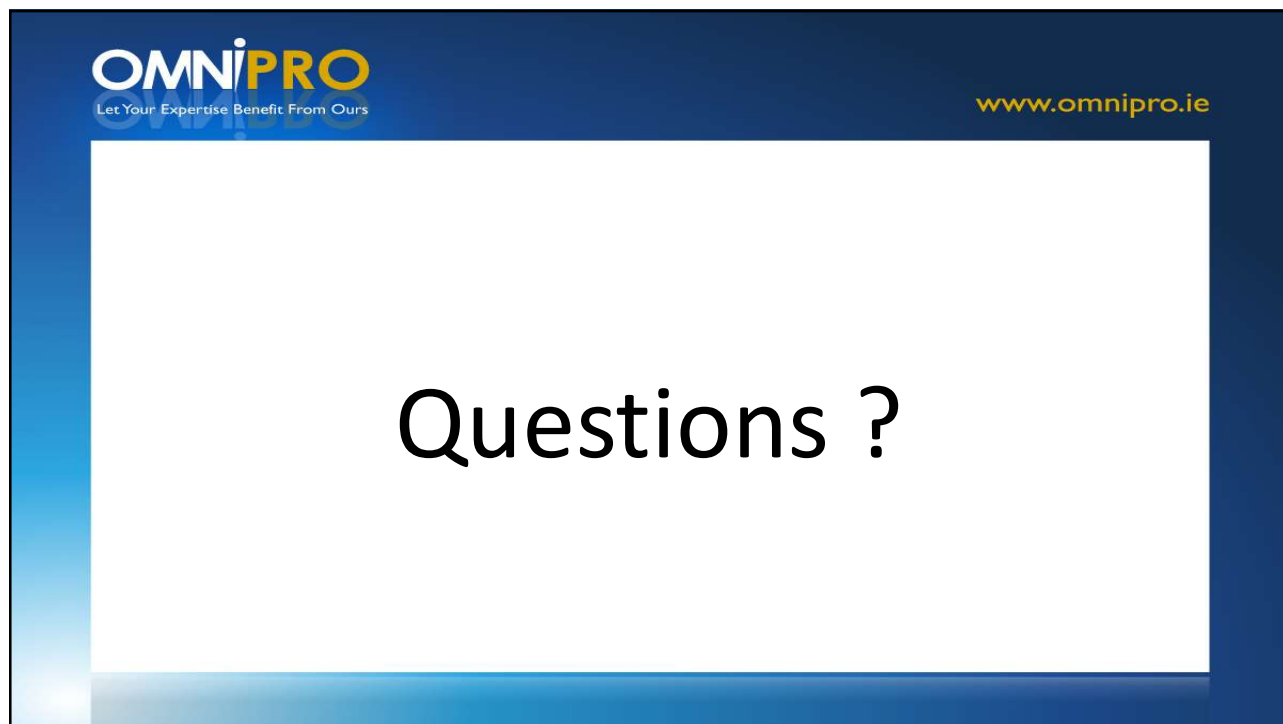
- Responses to the closing meeting notes or reports
 - Provide in timely manner (gives the impression of being proactive in addressing the deficiencies)
 - Identify how the deficiencies arose and how you will go about addressing the deficiency (we can assist in these responses)
 - Root Cause Analysis – the '5 Whys'

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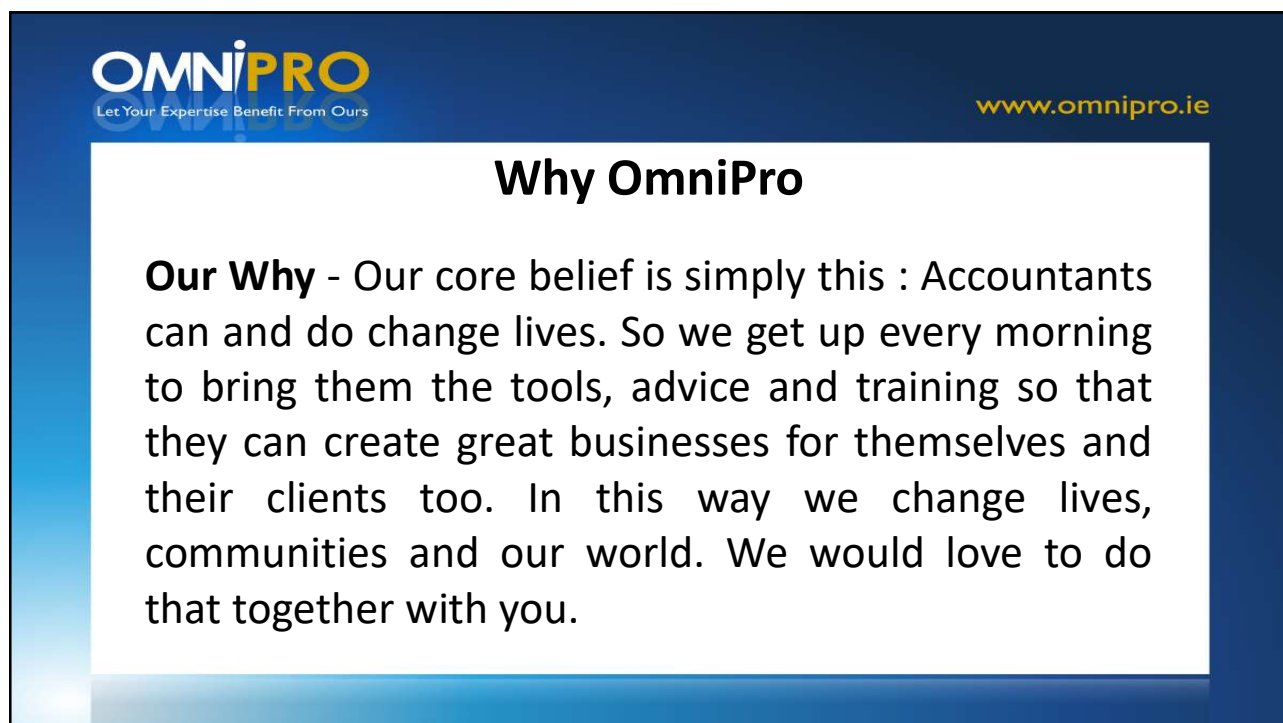
Post Monitoring

- **Significant and a lot of deficiencies identified what do I do ?**
 - A committee may issue a letter threatening to restrict, suspend or withdraw your authorisation or registration
 - we can help you draft your response
 - An individually tailored action plan to pre-empt a committee course of action
 - Assist a firm by providing bespoke training and technical assistance including file reviews to address specific measures imposed on a firm by their governing institute


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