

Steven Essayan outlines ACCA's approach to audit monitoring and shows how you can achieve a satisfactory outcome to a monitoring visit.

# achieving a satisfactory monitoring visit

■ **ACCA has always taken a constructive approach to audit monitoring as it wishes its firms to achieve and maintain a satisfactory standard of auditing. At all visits the compliance officer advises firms on how to improve the standard of their audit work and confirms this in the report.**

A first visit, whatever the outcome, is usually treated as advisory: it is very unlikely that the findings would be referred to the Admissions and Licensing Committee for it to consider whether to take regulatory action. Even where a firm's second visit also has an unsatisfactory outcome, as long as the firm has made a significant improvement and appears able and willing to make the necessary further improvement, it may be decided not to refer the findings to the Committee.

In addition, the Committee rarely considers removing a firm's audit registration the first time a firm's visit findings are referred to it, except where a firm does not respond appropriately or at all to the report.

#### **three strikes policy**

This approach used to be commonly referred to as the 'three strikes' policy, as it was unlikely that a firm would lose its audit registration until its third unsatisfactory outcome to a monitoring visit. However, although there has been no significant change to ACCA's policy or practice on unsatisfactory visit outcomes the term 'three strikes' is no longer used.

This is because it became increasingly misleading over time, as in practice the policy allowed for flexibility when firms improved between visits or when firms had borderline unsatisfactory outcomes. In particular, the Committee has often given a firm another chance, even where it has not achieved a satisfactory standard at a visit ordered by the Committee: this is as long as the firm has improved and shows that it is willing and able to make the further improvement necessary.

#### **new policy**

A firm's first monitoring visit remains advisory, although if an audit principal has had a visit in a previous firm then it will be that person's second visit. All firms are advised of the deficiencies and on how to improve and this is summarised in the report sent to the firm after the visit. Nevertheless, if it appears that a firm has not tried to carry out an audit in accordance with auditing standards then the findings could be referred to the Admissions and Licensing Committee at a first visit.

At subsequent visits firms are expected to achieve a satisfactory standard of audit work, or to maintain it where the outcome to their first visit was satisfactory. Any firm could face referral to the Admissions and Licensing Committee if second or subsequent visits are unsatisfactory, although account will be taken of what the firm has done to improve the standard of its audit work and its ability to achieve a satisfactory standard. Where a firm's audit work has deteriorated from a satisfactory standard at a previous visit a referral will depend on how significant the deterioration is.

Firms therefore have to ensure that they achieve and maintain a satisfactory standard of audit work. In order to do this, firms need to show that they have carried out their audits substantially in accordance with auditing standards. In particular, each audit file should show that the firm has obtained sufficient audit evidence for the key areas of the audit to support the audit opinion issued.

#### **improved procedures**

There are various means by which a firm can improve its procedures and achieve and maintain a satisfactory standard of audit work. For those firms which have had a visit the report will detail the deficiencies found and contain advice on how to improve. Firms can also refer to the monitoring section on ACCA's website at [www.accaglobal.com/members/professionalstandards/monitoring/auditing](http://www.accaglobal.com/members/professionalstandards/monitoring/auditing).



In particular, there is a self diagnostic checklist which is currently being developed for the International Standards on Auditing (UK & Ireland). Firms can use this to review their own audit files. It identifies areas where firms often fail to perform the necessary audit work or do not adequately record it.

#### **written procedures**

Firms should note that International Standard on Quality Control (UK & Ireland) 1 requires them to have written monitoring procedures. The Standard requires that these include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

Although the Standard does not require the firm to introduce external monitoring procedures, it is often difficult for firms – particularly small ones – to assess the standard of their own work objectively. An external review of audit files by a training company is likely to be much more effective and the firm should also receive practical guidance.

#### **audit workshops**

Lastly, there may be some firms which think that they need more extensive advice on how to plan, control and record an audit and would benefit from attending an audit workshop.

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ACCA UK and ACCA Ireland periodically run audit workshops: in the UK this is 'Guide to Practical Audit Compliance for Partners and Managers' and in Ireland 'Complete Audit Workshop'.

Firms whose principals or staff have attended one of these workshops have found they have helped them to improve significantly how they plan and record their audit work.

Details of the courses being run this year can be obtained from Professional Courses in the UK or Members' Services in Ireland or visit [www.accaglobal.com/events](http://www.accaglobal.com/events). ■

Steven Essayan – Audit Compliance Manager, ACCA