

ACCA audit monitoring reviews – quarterly update

As advised last quarter, we are identifying a large number of deficiencies in relation to Ethical Standards (ES) and ACCA's Code of Ethics and Conduct (CEC) during our audit monitoring and Rulebook compliance reviews. The below list summarises the key findings obtained across the teams, in no particular order:

AREA	ISSUE
Engagement letters (CEC section B9 paragraph 5)	<ul style="list-style-type: none"> No engagement letter in place or engagement letter not tailored to clearly define the scope of responsibilities and terms of the contract with each client. Engagement letter signed by client not retained. No reference to the firm's commission retention or notification policy. GDPR / DPA2018 and MLR2017 either not included or incorrect historical act referenced Privacy notice not included or submitted for review.
Letterhead (CEC section B4)	<ul style="list-style-type: none"> Stationery, including websites and other electronic materials, are not kept up to date or correct: <ul style="list-style-type: none"> If the firm is describing themselves as a registered auditor this must include the relevant statement (set out in B4) including the country its registration applies to. Limited companies have additional requirements under Section 41 Companies Act 2006 (UK) and Sec 151 Companies Act 2014 (Ireland). A firm may only refer to itself as 'Chartered Certified Accountants', 'an ACCA practice', or 'Member(s) of the Association of Chartered certified Accountants' and follow the specific requirements if using the ACCA logo.
Non-audit services provided to audited entities (ES 5)	<ul style="list-style-type: none"> Not considering all non-audit services to the audited entity; an audit entity's affiliates or another entity connected to the audited entity when assessing potential impact on objectivity and independence. No procedure in place that require others within the firm, when considering whether to accept a proposed engagement, to communicate details to the audit engagement partner. No process of ensuring that the arrangements put in place by way of safeguards are effective at all times.
Self-interest threat (ES 4)	<ul style="list-style-type: none"> Partners and staff with insufficient skills and time resources being assigned to perform the audit. Insufficient consideration being given in relation to total fees for both audit and non-audit services of a non-listed audit entity and its subsidiaries to ensure that they do not regularly exceed 15% of the annual fee income of the firm.
Long association with the audit engagement (ES 3)	<ul style="list-style-type: none"> No procedure in place to monitor the length of time key team members have served as members of the engagement team for each audit and therefore no ability to identify a perceived loss of independence. Inadequate safeguards put in place to address the threat to objectivity and independence. Where appropriate safeguards cannot be applied, the audit firm should resign as auditor. Justification provided as to why no safeguards are required, but no real consideration in to whether safeguards would be beneficial / considered necessary by an informed third party.
Management threat (ES 1)	<ul style="list-style-type: none"> Partners and employees of the audit firm taking decisions on behalf of the management of the audit entity.

In addition to the frequent issues that we identify in relation to completeness testing, other auditing issues that we identified this quarter were: little or no review of journals; no testing of understanding of systems and controls through walkthrough tests or observation and enquiry; not recording how sample sizes have been calculated or the rationale for setting materiality; and firms not recording key requirements of any specific laws and regulations relevant to their clients and demonstrating on file how the entity is complying with these.

We will be hosting a live webinar on 25 April 2023 on the common issues of audit monitoring reviews. This will follow on from an Auditing Update webinar in the morning and precedes an Accounting Standards Update course on 26 April 2023. These webinars will be recorded. Please follow the links to book the [Audit update and monitoring reviews](#) and [Accounting Standards Update](#) sessions.

ACCA requires firms to produce an action plan that demonstrates that the firm has understood the deficiencies identified as part of the audit monitoring review, its root cause and how to prevent recurrence. Having recently focused on the common issues being identified at our monitoring reviews, next quarter we will be highlighting some of the root causes identified in relation to these deficiencies.