

Inspection Findings

Introduction:

Engagement Performance

Engagement performance-related deficiencies remained the highest component of all the deficiencies reported at firm level in the period under review, and this was the observation throughout the 7th Inspections Cycle. Most of the deficiencies reported in previous years recurred.

	Finding	ISA Requirement	Suggested Improvement	Slido question
1	<p>There was a lack of and/or insufficient document evidence that the required sections in the engagement files were reviewed by the engagement partner.</p> <p>The review by the engagement partner was only performed after the date that the audit report was signed.</p> <p>Significant lack of the review of financial statement presentations and disclosures, including material misstatements and disclosures required by the relevant accounting framework not being presented.</p>	<p>ISA 220.31-34 specifies WHAT the engagement partner should review and WHEN.</p> <p>The engagement partner should review specific audit documentation at appropriate points in time during the audit engagement, which include audit documentation relating to:</p> <p>(1) significant matters, (2) significant judgements, including those relating to difficult or contentious matters identified, and the conclusions reached, and (3) other matters based on the engagement partner's professional judgement.</p> <p>On or before the date of the auditor's report the engagement partner is required to review the financial statements, the auditor's report and related audit documentation as well as formal written communication to management, those charged with governance, or regulatory authorities.</p>	<p>IRBA– Most likely root causes identified by the IRBA</p> <ol style="list-style-type: none"> 1) Time pressures 2) Lack of knowledge and training (engagement team members) 	<p>Question B</p> <p>What prevents engagement partners to timeously review required audit documentation?</p>
2	<p>The most likely root causes identified by firms in response to the top 5 reportable deficiencies on individual assurance engagements include:</p>	<p>ISA 220.40 requires the engagement partner to reflect on his or her own involvement prior to dating the auditor's report and to determine whether he or she has taken overall responsibility for managing and achieving quality on the audit engagement. The engagement partner shall determine that his or</p>	<p>IRBA Relevant success factors:</p> <ol style="list-style-type: none"> 1) Engagement partners invest in ensuring that their own Continuing Professional Development (CPD) is up to date. 	<p>Question C</p> <p>How can the engagement partner prevent being in a situation where he or she concludes that he/she has not been sufficiently and</p>

	<p>(1) review process failure, (2) time pressures, (3) lack of senior level involvement, and (4) section allocated to less experienced members of the team.</p>	<p>her involvement has been sufficient and appropriate throughout the engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate.</p>	<p>The actions implemented by most firms to rectify the Top 5 reportable deficiencies in the IRBA inspection report, include enhanced involvement by engagement partner:</p> <p>(1) Enhanced involvement in the planning phase and risk assessment by partner and seniors (ISA220.31 - audit documentation related to significant judgements shall be reviewed by engagement partner), (2) Allocation of work to seniors with more experience and subject knowledge (3) Appropriate guidance and enhanced involvement by seniors (ISA 220.15 read with par 30 require the engagement partner to provide direction and supervision to those he or she assign procedures, tasks, or actions to. The engagement partner should consider complexity, experience of the staff, assessment of risk when assigning responsibilities) (4) Enhanced review by partners and seniors (ISA220.31&32 - audit documentation related to significant matters, significant judgement and other matters based on professional judgement shall be reviewed by engagement partner) (5) Enhanced financial statement review by partners (ISA 220.33 requires review</p>	<p>appropriately involved in the engagement?</p>
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			of financial statements by engagement partner prior to audit report date)	
3	<p>Some firms rely on the services of external consulting firms to perform both their EQCRs and other services, such as accounting opinions, International Financial Reporting Standards (IFRS) reviews and IT audit work, and, in some instances, for the same audit client. This creates a risk of over-reliance/undue reliance, where threats to independence were not identified or appropriately addressed, and a risk of firms not taking responsibility and/or accountability for audit quality.</p> <p>The reliance placed on external consulting firms, as mentioned above, led the IRBA to question the experience and competence of the audit firms to service the clients that they issued audit opinions on and ensure the effective quality monitoring thereof.</p>	<p>ISA 220.25 requires the engagement partner to determine that sufficient and appropriate resources are assigned or made available to perform the engagement. Par 26 then requires that the engagement partner must determine that the members of the engagement team and any auditor's external experts and the internal auditors who provide direct assistance (and who aren't part of the engagement team), collectively have the appropriate competence and capabilities, including sufficient time to perform the audit engagement.</p> <p>The other matter here also relates to par 17(a) in that the engagement partner takes responsibility for other members of the engagement team having been made aware of the firm's policies and procedures that address the identification, evaluation and addressing of threats to compliance with relevant ethical requirements, including those related to independence.</p>	<p>IRBA relevant success factors:</p> <ol style="list-style-type: none"> 1) Firms that sufficiently invests in in-house technical competence and expertise are more successful in managing audit quality in a sustainable manner. 2) Firms that sufficiently invest in appropriate training for their audit staff tend to perform better audits in accordance with the required standards. 3) Audit firms that have invested in training and developing individuals within their audit teams or firms to obtain the required technical expertise to review financial statements with the required rigour and technical knowledge, as opposed to outsourcing the review of the disclosures in the AFS to external consultants, are more likely to achieve consistent and sustainable high-quality audits and able to consistently identify disclosure deficiencies. 	<p>Question D</p> <p>How can the engagement team ensure that all threats to compliance with the relevant ethical requirements are identified, evaluated and addressed?</p>

4	<p>Inspection findings related to areas involving significant auditor judgement represented 30% of the total inspection findings, of which 14% relates to significant accounting estimates and judgements. The findings include that audit documentation does not include evidence that the auditor applied professional scepticism and information received from the audit client, such as forecasts, cash flows and assumptions used in the measurement of carrying values, are accepted on face value.</p>	<p>ISA220.7 states that appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional scepticism, such as unconscious bias or resource constraints.</p>	<p><i>IRBA - success factors</i></p> <p>Practitioners who have applied adequate levels of professional scepticism on areas of judgement are able to appropriately challenge management's estimates and assumptions, as well as appropriately identify and document their assessment of the risk of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.</p> <p>How Rectified By Most Firms Through the Implementation of RAPs</p> <ol style="list-style-type: none"> 1) Practical training and guidance by seniors. 2) Allocation to seniors with more experience and subject knowledge. <p>ISA220.A34 & A36 - Consider</p> <ol style="list-style-type: none"> 1) Budget constraints and tight deadlines on resource allocation. 2) Lack of cooperation or undue pressures imposed by management. 3) Whether understanding of entity and its environment is sufficient to make appropriate judgements and informed questioning of management's assertions. 	<p>Question E</p> <p>How can the engagement team enhance their professional scepticism to prevent similar inspection findings?</p>
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5	The inspection reports indicate a number of firms for which the inspection results require significant improvements or referral for investigation.	ISA220.4 read with A11 of the revised standard.	Paragraph A11 of ISA 220 (Revised) provides guidance on actions the engagement partner may take if it becomes clear that the firm's responses to quality risks are ineffective in the context of the specific engagement or if the engagement partner is unable to depend on the firm's policies or procedures.	<p>Question F</p> <p>What action should the engagement partner take when their firm's inspection results show significant improvement required or referral for investigation?</p>

			<p>The engagement partner must communicate such information promptly to the firm, as such information is relevant to the firm's monitoring and remediation process.</p> <p>For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program.</p> <p>Firms, and firm leadership in particular, are required to ensure, as part of their processes of continuous improvement and remediation, that all deficiencies identified and reported during a firm or an assurance engagement file inspection are promptly addressed throughout the entire firm. A thorough root cause analysis should be performed, and practical remedial action plans must be developed and implemented. Apart from the usual actions like giving more training, firms can also incorporate results of inspections into performance evaluations if not already included.</p> <p>It is therefore expected that where improvements are required, these should be promptly addressed by all engagement teams across the firm on all of its audits.</p> <p>The need to protect the public interest and repair the reputation of the auditing profession</p>	
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			has never been higher. Firms are strongly encouraged to pay close attention to the analysis of the themes presented by the IRBA, to ensure that they are able to implement processes and controls that address these deficiency themes in a sustainable manner, to enable the performance of high-quality audits that is responsive to changes in risks.	
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