



ИНСТИТУТ
НА ОБЛАСТЕНИ РЕВИЗОРИ НА
РЕПУБЛИКА МАКЕДОНИЈА

INSTITUTE OF CERTIFIED AUDITORS OF REPUBLIC OF MACEDONIA (ICARM)

RESULTS IN AUDIT QUALITY ASSURANCE: SUCCESSSES AND CHALLENGES IN MACEDONIA

Vienna, 2018

Contents of Presentation

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Key messages

- **Good strategy** for initial development of QA system is very important
- **Use of expertise** (international) is key for the success of the development and the implementation
- **External resources used** through REPARIS program secured continual flow from development to implementation phase

Quick recap (**Audit law 2010**):

- ▶ ICARM is competent to conduct quality assurance inspections
- ▶ ICARM instigate disciplinary procedures
- ▶ Quality assurance system is subject to oversight by the Oversight Council

Relevant figures

- 208 certified auditor registered in ICARM (current)
- 25 audit firms and 15 sole proprietors (current)
- 2 QA reviewers (the first hired in March 2009)
- 143 PIE (based on collected data in June 2017)

Overview on the process of QA system development

The project “Quality assurance of certified auditors” within REPARIS project started in April 2009 conducted by the French Consortium (CNCC and CSOEC)

Partnership Agreement with French French Consortium to support ICARM application for IFAC membership and technical assistance in the quality assurance process signed in may 2010

Overview on the process of QA system development

Strategy for initial development

- Design flexible system, cost effective and progressive in its implementation
- Secure sustained QA System

Overview on the process of QA system development

Secure sustained QA System

- Quality Control Committee within ICARM
 - Five members (two members as non-practitioners), three years mandate
- Full time employed reviewers within ICARM
 - Practical coaching and mentoring
- QA methodology
 - Rulebook and tools

Overview on the process of QA system development

Full time reviewers (Audit law 2014)

- Hold a license for certified auditor
- Hold a certificate for Quality reviewer
- At least 5 years of experience as certified auditor
- To be independent

Overview on the process of QA system development

QA methodology - main approach

- Annual QA inspection plan
- Cyclical approach - at least once in every three years
- Risk based approach (selection)
- Follow up reviews (requested)
- Notification letter (30 calendar days)
- Notification on selected audit files (10 business days)
- At least one engagement per audit partner
- Three level of grading (satisfactory, satisfactory but requires further consideration, or unsatisfactory)

Overview on the process of QA system development

QA methodology - documentation

- Detailed firm and file review checklists
- Pull together all findings into reports
- Discuss findings and recommendations, agree action plan and implementation deadline
- Summary evaluation
- Grading on engagement level and overall firm's grading

QA system implementation

Number of inspections per year:

- 2009 (started in December) - 4 inspections
- 2010 - 11 inspections
- 2011 - 14 inspections
- 2012 - 16 inspections
- 2013 - 18 inspections
- 2014 - 21 inspections
- 2015 - 21 inspections
- 2016 - 20 inspections

QA system implementation

Reporting

- ▶ Documents and report based on QA are prepared and signed by the reviewers and the reviewed audit firm
- ▶ Distributed to QA Committee for their further consideration
- ▶ If auditor does not agree with the conclusion, request for clarification sent to QC Committee/Disciplinary Committee
- ▶ Quarterly status reports to Oversight Council
- ▶ Annual reports to Disciplinary Committee
- ▶ Annual report on QA results

QA system implementation

QA Committee Annual Report on QA results

- Last published on ICARM webpage is for the reviews done in 2016-2017
 - Results in further details disseminated through CPD in September 2017
 - Use of statistics based on annual activity data
 - Selected specific or frequent findings discussed on CPD

QA system implementation

QA Committee Annual Report on QA results

- Findings considered into two main groups:
 - Related to the QC System on the firm level
 - Related to the implementation of the QC System on the level of selected engagement

QA system implementation

QA Committee Annual Report on QA results

- Findings related to the QC System on the firm level
 - The design is satisfactory, implementation needs further consideration in the areas where additional internal or external resources are the key:
 - Overall staff subject to continuing training
 - Engagement Quality Control Reviewer
 - Monitoring
 - Audit methodology
 - Audit fee and budgeting - lack of business model on a firm level, time management

QA system implementation

QA Committee Annual Report on QA results

- Findings related to the QC System on engagement level
 - Professional scepticism: challenging management assertions
 - Preliminary analytical procedures only as mathematical approach and consistency in identified risks with audit program
 - Key conclusions in risk assessment phase not consistently follow till the end of the audit
 - Revenue recognition and Management override not identified as significant fraud risks

QA system implementation

QA Committee Annual Report on QA results

- Findings related to the QC System on engagement level
 - Initial audit engagements: opening balances not considered as risk factor, lack of discussion with predecessor auditor and plan on adequate further audit procedures
 - Related parties transactions: not considered as risk factor, lack of sufficient audit evidence on related party identification and substance of the transactions, lack of adequate disclosure in financial statements

QA system implementation

QA Committee Annual Report on QA results

- Findings related to the QC System on engagement level
 - Audit approach - lack of testing controls
 - Sampling procedures - lack of statistical sampling
 - Subsequent events: lack of documented consideration
 - Going Concern not considering and recording key factors material in the going concern assessment; not challenging assumptions made by management
 - Audit report qualification- wording does not adequately address the issue/misstatement, no quantification

Process of QA system **development**

- **Success:**
 - Milestones determined in the strategy are delivered
 - QA system within ICARM is sustainable
- **Challenges:**
 - Harmonization with EU regulation
- **Issues and solutions:**
 - Initial development and implementation needs use of international expertise and resources - many issues can be avoidable

Success, challenges, issues and solutions

QA system **implementation** - *success*

- Ongoing process, well accepted and subject to modification based on practical experience
- Transparent - annual report on quality review results is published on ICARM web page
- Subject to oversight by the Oversight Council
 - The Rulebook (methodology) subject to consent
 - Annual work program subject to consent
 - Permanent participant on QC Committee's meetings
 - Regular status reporting

Success, challenges, issues and solutions

QA system **implementation** - *challenges, issues and solutions*:

- QA system implementation on a country level
 - Human resources
 - Only informed and trained partners in the process (audit firms) may contribute the implementation
 - Legal environment (Law, EU directives)
- QC system implementation on the audit firm level
 - System of quality control - hard to design if not network
 - Train auditors on ISA (significant number of hours within CPD and workshops organized by local and international experts)



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