

Role of PAOs in Audit Oversight and Quality Assurance

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IMPROVING AUDIT QUALITY THROUGH AUDIT OVERSIGHT AND QUALITY ASSURANCE SYSTEMS

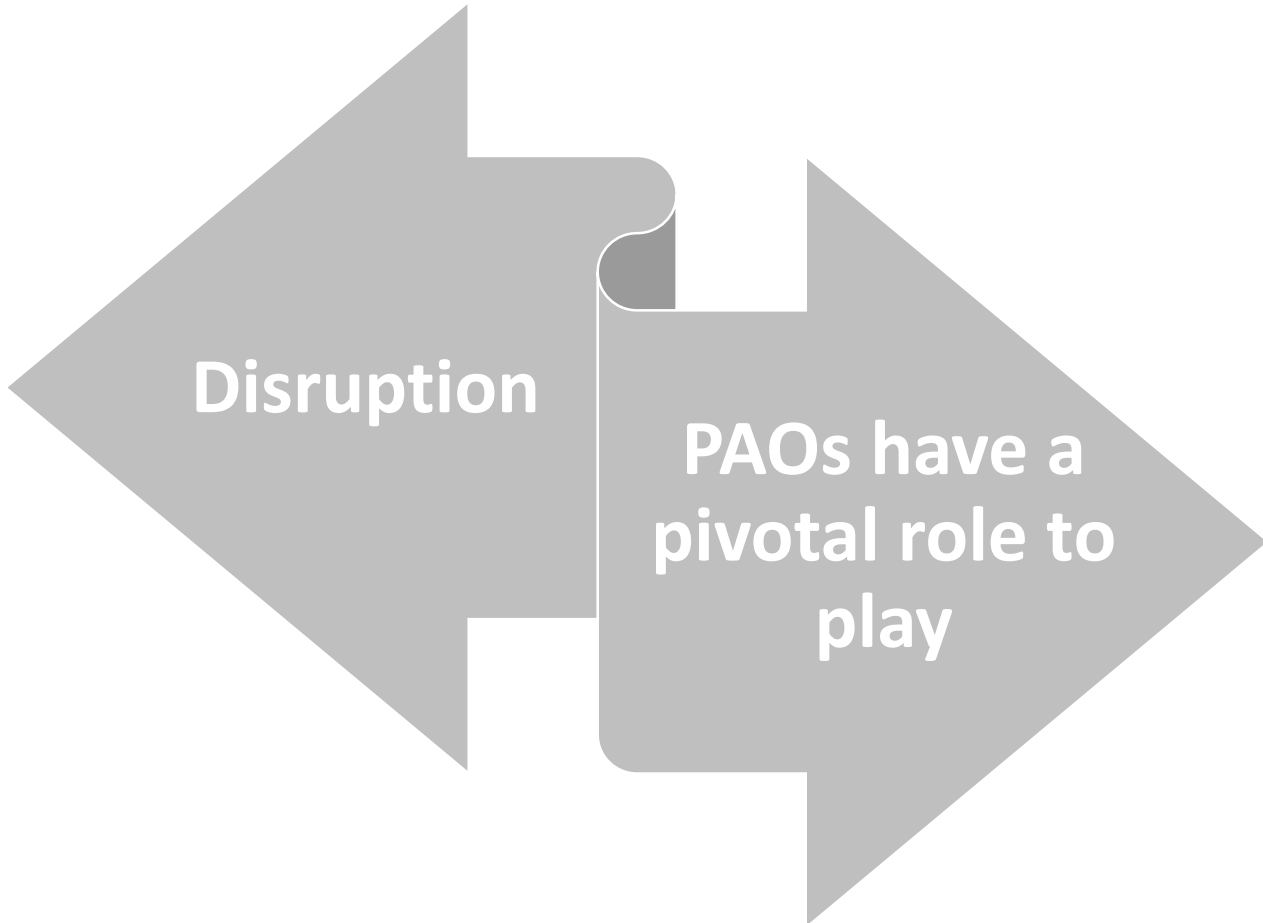
CFRR 

**Centre for Financial
Reporting Reform**





INTRODUCTION



Components of audit regulation



Source: ICAEW CAPA Good Practice Guide

Disruption to the Self Regulatory Model

- High quality corporate financial reporting is integral to a well functioning business climate
- The self-regulation model for the audit profession that has existed in many countries is being necessarily disrupted
- However, PAOs still have an important role to play.....

“Investigation launched into KPMG Audit of Rolls Royce” Financial Times

“EY fined for improper auditor relationships”
Financial Times

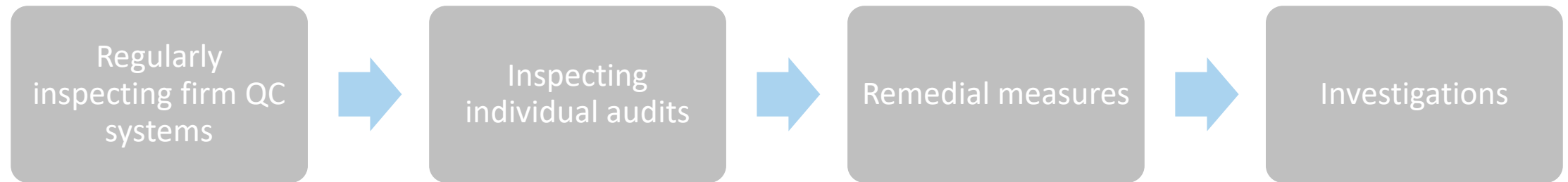
‘America’s watchdog discovers serious misconduct at Deloitte Brazil” Economist

“Tesco’s debacle: A systemic shambles” The Guardian

“Tesco crisis: watchdog opens fresh investigation into auditor's role in historic accounts” Telegraph
“

Lawmakers question quality of KPMG's Wells Fargo audits” CNBC

How POBs monitor and improve the quality of auditing



An international framework supports PAOs as productive partners in regulation

- » Recognizes that PAOs play a critical role in working with governments to ensure audit regulation is effective, efficient and in the public interest
- » Supports global regulatory convergence
- » Stresses ongoing dialogue to find the right balance between self regulation, self regulation with public oversight and external regulation
- » Recognizes the difference between PIE audits and other audits
- » Supports shared approach to regulation





An international framework supports PAOs as productive partners in regulation....

- » Applies to IFAC Member PAOs and sets out the role that PAOs should play in a system of Quality Assurance for audit

Final Pronouncement
November 2012

The Board of the International Federation of Accountants

**Statements of Membership Obligations (SMOs) 1-7
(Revised)**

IFAC Statement of Membership Obligations





IFAC's Statements of Member Obligations (SMOs)

- » Essentially outline the key functions of PAOs
- » There are 7:
 - » SMO 1: Quality Assurance
 - » SMO 2: International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB
 - » SMO 3: International Standards and Other Pronouncements Issued by the IAASB
 - » SMO 4: IESBA *Code of Ethics for Professional Accountants*
 - » SMO 5: International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB
 - » SMO 6: Investigation and Discipline
 - » SMO 7: International Financial reporting Standards and Other Pronouncements issued by the IASB



IFAC's Statements of Member Obligations (SMOs) (Continued...)

- » PAO obligations depend on responsibilities under national legal system
- » Obligation is to implement requirements of SMOs when responsible or use best endeavors to encourage implementation by responsible party and assist in implementation.

SMO 1 helps audit organizations with QA for Audit

Final Pronouncement
November 2012

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Statements of Membership
Obligations (SMOs) 1-7
(Revised)



- » Applies to all Audits of Financial Statements
- » Requires that ISQC 1 be adopted and implemented by all audit firms
- » Provides a roadmap for the design of an Audit QA system
 - Review cycles
 - Skills required
 - Documentation
 - Disciplinary action
- » Oversight body mandate
- » Reporting on results
- » Shared responsibilities

OVERSIGHT OF	non PIEs	PIEs
Approval and registration of statutory auditors and audit firms	may be delegated	may be delegated
Adoption of relevant standards	may be delegated	may be delegated
Continuing education	may be delegated	may be delegated
Quality assurance system	may be delegated	may NOT be delegated
Investigative and administrative disciplinary system	may be delegated	may NOT be delegated

- Consultation for the approval and registration process for firms
- Maintaining an authorized register of members
- Consultation in the standard setting process
- Setting CPE requirement and monitoring compliance
- Quality Assurance for non PIEs

Delegation



Strong, effective PAOs can make a significant contribution

» The World Bank believes PAOs have an important role to play in developing quality financial information that enhances the public trust and creates a business climate conducive to sustained economic growth

Strong, effective PAOs:

- act in the public interest and are integral to the delivery of public value globally as proponents of good corporate governance and appliers of consistent global standards;
- develop and produce capable and competent accountancy professionals through education, certification, and continuing professional development programs;
- promote strong professional and ethical standards through adoption and implementation of international standards and best practices—PAOs set the bar for behavior and practice of accountancy professionals, thereby enhancing public trust in the quality of their work;
- further the quality of financial reporting through review, investigation, and discipline of professionals—well-functioning systems not only strengthen professional behavior but also educate and reinforce best practices, thus improving the quality of information and advancing the profession; and
- act as a resource to government, regulators, and other stakeholders at the individual country and regional levels, with sound public policy guidance and advice on accountancy related topics.

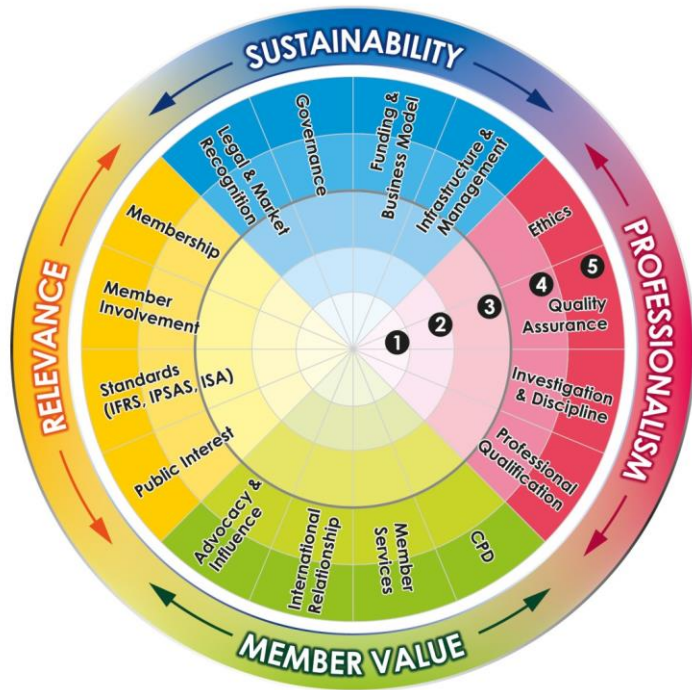
(September 2014 Professional Accountancy Organization Development Committee Fact Sheet)



Key messages

- » The obligations PAOs have as members of IFAC when met, position them for an important front line role in the regulation of auditors and audit firms (especially non-PIE's).
- » BUT they can only play essential role if they are strong and comply with good practices (including compliance with IFAC's SMOs), their responsibilities and roles assigned by the law
- » The recent trend is that audit oversight bodies and legislation set-up the systems where audit oversight “delegates” certain functions to PAOs, and therefore if this delegation does not work – it can be taken back, delegation can be on education/qualification/CPD, maintaining public register of auditors, adopting professional standards, and certain activities on QA

CAPA Maturity Model



Sustainability	Professionalism	Member Value	Relevance
Legal & Market Recognition	Ethics*	Advocacy & Influence	Membership
Governance	Quality Assurance*	International Relationships	Member Involvement
Funding & Business Model	Investigation & Discipline*	Member Services	Standards* (IFRS, IPSAS, ISA)
Infrastructure & Management	Professional Qualification*	CPD*	Public Interest

* Linked to IFAC's SMOs

CAPA Maturity Model - QA

Quality Assurance (QA)²⁰ - Establishing standards and systems to monitor the quality of services provided by members to the public.

Aspect	1	2	3	4	5
Standards and guidance	None	Guidelines developed and issued	Minimum standards and requirements established at the levels of: <ul style="list-style-type: none"> • audit engagement • firm • body responsible for quality assurance review 	Guidance to members Requirements in place across the full range of public accounting services	Regular review of standards and requirements Guidance to members regularly updated Advice structures in place, for example, helplines
Implementation and monitoring	None	No formal monitoring of compliance	QA programme based on periodic review cycle Necessary allocation of management resources	Dedicated management resources with necessary skills and competences Risk-based review cycle Transparent and documented policies and procedures	Regular review of QA programme to ensure compliance with external standards QA committee with balanced and independent representation Established cooperation with other oversight bodies or regulator
Reporting	None	None	Outcomes shared with members Outcomes used to inform development of guidance and CPD	Annual public reporting Outcomes embedded in CPD programmes Implementation of disciplinary procedures where there is non-compliance	Outcomes shared with and feedback sought from external stakeholders Mutual recognition programmes with other regulators
SMO compliance	Not active	Considering how to address the requirements of SMO 1	Has a defined plan to address the requirements of SMO 1	Executing and implementing the requirements of SMO 1	Ongoing commitment to continuous improvement in addressing requirements of SMO 1

ADB CAPA Good Practice Guide

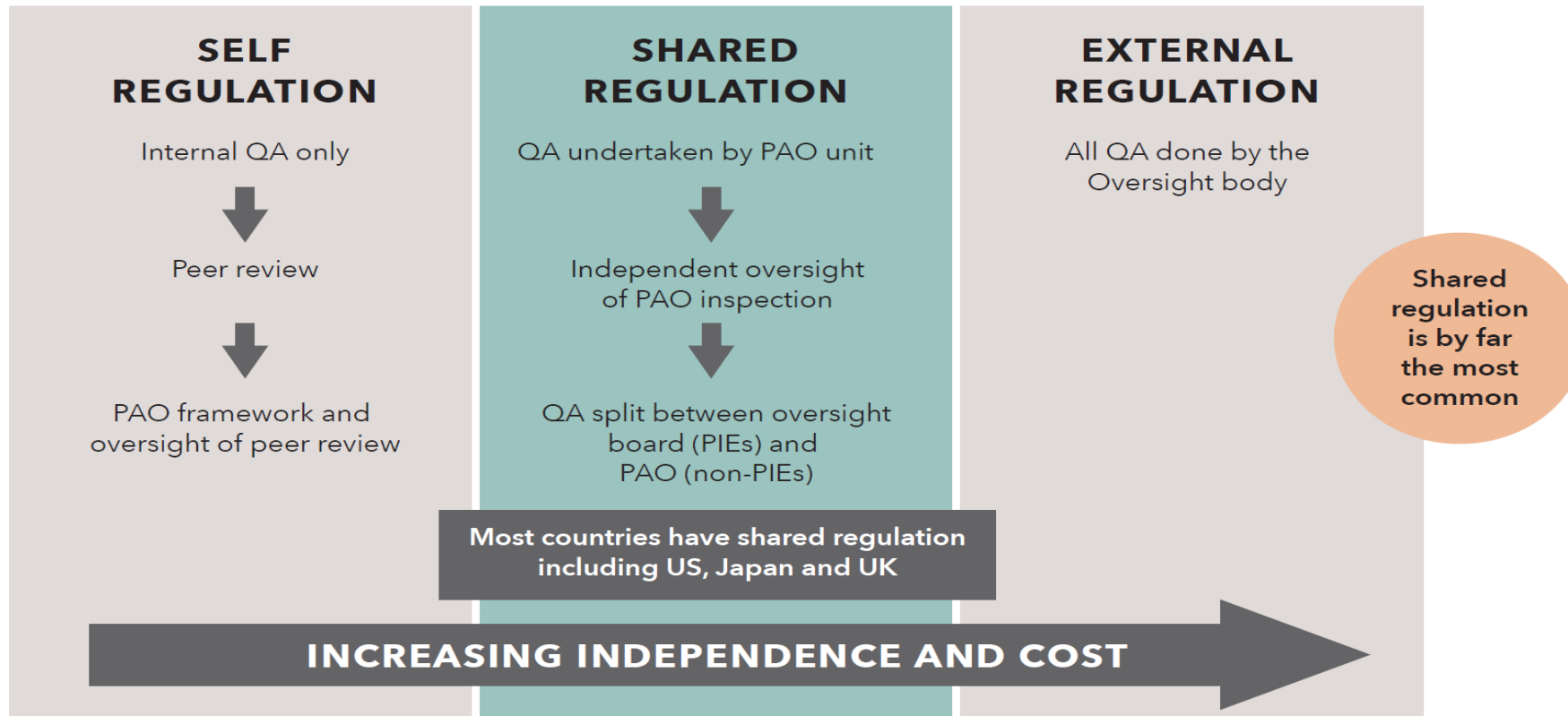
QUALITY ASSURANCE FOR AUDIT
A GOOD-PRACTICE GUIDE



Why? What? How?



Models of QA for Audit



CA ANZ experience with regard to the QA of non-PIE's





CA ANZ experience with regard to the QA of non-PIE's

- » Background - regulator and PAOs
- » Types of review
- » Approach, frequency and cost
- » Results
- » Common themes
- » Further developments



Thank you for your attention