

pob

**PUBLIC
OVERSIGHT
BOARD**

**FRCoP
Wien 2-3 July 2019**

**Public Oversight Board
Albania Case**

Quality Assurance Inspection Process

- Pilot Inspections Program
- Methodology
- Risk Matrix
- Audit Firm & Engagement Selection
- Fieldwork inspection
- The Findings
- Inspection process challenges

Pilot Inspections Program

- World Bank sustain through AL-EQ-FINREP/II.1/CS/CQS

“IMPROVING THE AUDIT QUALITY BY STRENGTHENING THE AUDIT OVERSIGHT SYSTEM”

- External consultants were contracted to conduct of pilot inspections on audits in financial institutions and other PIEs.
- Part of the program was assistance for technical capacity of inspectors as to enable them to conduct effective inspections of PIEs and non PIEs auditors

Methodology

- Manual for the oversight of quality assurance and Regulation Nr.7 of 02.10.2018 “Procedures and methodology for quality control of statutory audit”.
- Quality assurance inspection types
 - Comprehensive quality control
 - Limited(thematic) quality control
- Inspections cycle
 - Quality assurance inspection for audit firms/auditors for PIEs audit is based on a 3 year cycle inspection
 - Quality assurance inspection for audit firms/auditors for non PIEs audit are envisaged to be performed in a 6 year cycle inspection
 - For auditors with less than a 5 year experience in practice the quality assurance inspection shall be performed every two years

Methodology (continued)

- Setting the scope of inspection
 - Inspection of Internal quality control system
 - Inspection of selected audit engagement quality
- Risk Analysis is based in two main elements :
 - Risk factors of PIE/non PIE audit engagements
 - Risk factors for Audit Firms / Auditors

Risk Matrix of PIE/non PIE audit engagements

Risk Analysis						
Risk Factors			Risk Assessment			Ref
PIE audit engagements	Industry	Banking	Low	Medium	High	
		Financial institutions non banks licensed by BoA				
		Financial Companies licensed by FSA				
		Production company				
		Commercial Company				
		Service Company				
		Other				
	PIE Structure	Listed (Yes /No)	Low	Medium	High	
		Foreign Branch				
		Market share				
		Legal form (SHPK, SHA)				
		Ownership (Principal owner				
	Opinion Type	Unqualified	Low	Medium	High	
		Qualified				
		Adverse Opinion				
		Disclaimer of Opinion				
	Audit Issues		Low	Medium	High	
			Low	Medium	High	
	Financial Reporting Issues		Low	Medium	High	
			Low	Medium	High	
	Compliance issues		Low	Medium	High	
	Other risk factors		Low	Medium	High	

Risk Matrix of Audit Firms / Auditors

Risk Analysis						
Risk Factors			Risk Assessment			Ref
Audit Firms/Auditors	Structure	Part of Network	Low	Medium	High	
		Audit partners number				
		Engagement staff member number				
		PIE audit engagement number				
		PIE audit hours				
		PIE audit fee engagements				
		Non Pie audit engagement number				
		Non PIE audit hours				
		Non PIE audit fee engagements				
	Internal Quality Control System	No deficiencies	Low	Medium	High	
Deficiencies evidenced						
Compliance with general standards <ol style="list-style-type: none"> 1. Leadership responsibility for quality 2. Ethics 3. Acceptance/Continuance of audit engagements 4. Monitoring 5. Audit Engagement performance 6. Human Resources 						

Audit Firm & Engagement Selection

- The selection is based on a methodology of combined risk factors
- Appointing points to each factor
- Proposal to POB for decision making
- Notification

Fieldwork inspection

The inspection process was performed through 3 main phases :

☐ First Phase - Planning and Preparing for inspection

- Selection of 10 Audit firms (7 of 10 from large networks & 3 sole practitioners)
- 15 Audit Engagements inspection performed
 - ☐ PIE - 5 bank audit, 4 audit insurance companies, 1 audit investments funds
 - ☐ Non PIE – 2 audit telecommunications companies, 1 audit state owned , 2 audit large private companies

☐ Notice of inspection and audit firm meeting

- Promoting a collaborative environment
- Scope and content of the Quality Assurance Program
- Preliminary information gathering

Fieldwork inspection

□ Second Phase – On site inspection

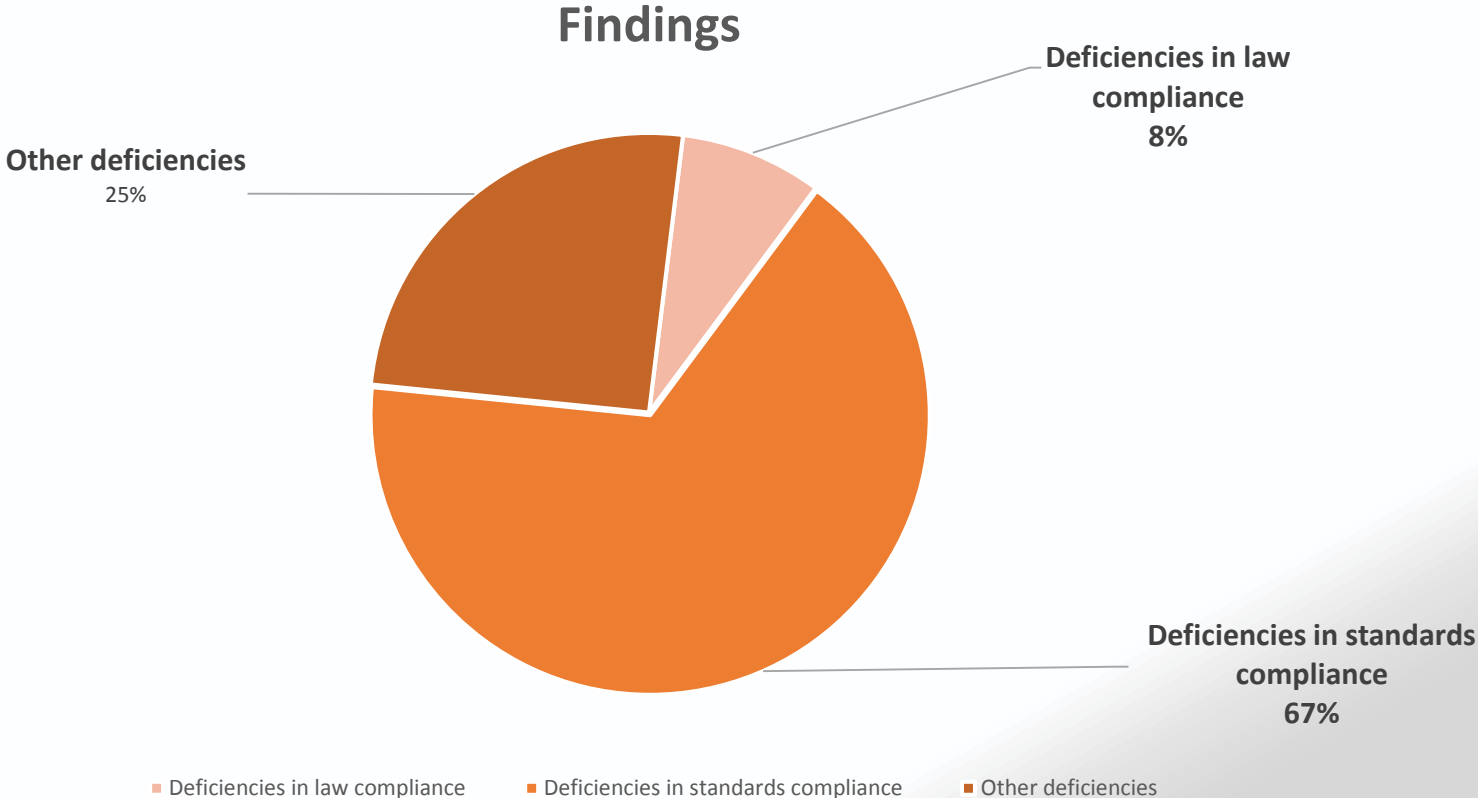
- Opening meeting with the firm/office managing partner and senior manager.
- A detailed discussion on the operation of the firm's internal quality control monitoring structure and program.
- Discussion and review of the general, audit and ethical standards, including independence, to assess the level of compliance with applicable requirements.
- Introduction to the firm's audit methodology, including the manuals and the software tools (where used) and how the approach is applied practically to an audit engagement.
- Review of previously selected PIE audit engagements, including the assessment of the quality and quantity of resources spent and the consistency of audit fees charged.
- Meetings and interviews with a range of firm personnel, mainly those involved in the performance of the engagements selected for review.
- Closing meeting, with preliminary discussion of the findings

Fieldwork inspection

□ Third Phase- Reporting

- The first phase of reporting consisted in the preparation of the draft report, which was formally communicated to the audit firm for comment.
- Second phase of the report addressed the audit firms' comments through long and constructive discussions between audit societies and POB inspectors to ensure a transparent and impartial process.
- The inspection process was finalized by submitting the final report and action plan as an integral part of this report.

The findings



The Findings – Internal Quality Control System

□ **Review of the internal quality control system at the audit firm level**

- The subject of the quality review process is the network partner and not the legal auditor.
- Partial review of quality control reviews for PIEs classified according to local legislation.
- Internal quality control within the auditing company should be carried out by a legal auditor.
- Non-compliance with internal policies regarding the division of the roles of the company's leading partner and the ethics officer.

The Findings – Internal Quality Control System

- Monitoring of quality control system are applied at the regional level and not at the individual level of the member firm.
- Lack of formalization or implementation of monitoring procedures for cold reviews of engagements.
- Evidence in the engagement file indicates that the process of reviewing the audit program, audit work papers and audit evidence, the engagement partner, and reviewing partner has been carried out at the date of issuance of the report. This method does not provide assurance that the review process occurs during the audit process.

The Findings - Archiving

❑ Document gathering, archiving and retention of the engagement file

- The archiving system involves archiving in part to the relevant audit / archiving platforms and partly to the physical files. In six out of ten audit firms this system does not provide assurance as to the completeness of the engagement file.
- Sole practitioners auditing firms, there is no adequate archiving system that provides compliance with ISQC1 and best archiving practices.

The Findings – Human Resources and other

❑ Human resources structure

- Lack of the senior auditor / supervisor role
- Acceptance / continuance of audit engagements of complex entities, by audit firm with an inadequate human resource structure

❑ Other

- In two cases the transparency report on the official website has not been published as required by the law
- In two other cases the regulator (POB) and the professional organization have not been notified within the time limits provided for in the cases of discontinuation of the audit engagement.

The Findings – Audit engagements 1

❑ Preconditions for acceptance / continuation of client / audit engagement

Independence

- Use joint independence statements from the engagement team rather than individual independence statements.
- Lack of independence statement by experts engaged in the engagement team.

Acceptance / continuation of engagement

- Deficiency in the form of acceptance / continued audit engagement regarding documentation of client searches and recognition and searches for control over the conflict of interest and independence of the client and inappropriate timing of performing such procedures.
- The letter of engagement had errors and shortcomings in content.

The Findings – Audit engagements 2

□ Risk assessment and response to assessed risk

- Defining the engagement risk level without a sufficient reasoned documented conclusion
- Selection of qualitative criteria by making an entity's inadequate classification (size and complexity), which further influenced the design of the overall audit strategy.
- Incomplete documentation has been ascertained with regard to management searches on various issues such as the implementation of the going concern principle, related party transactions, self-evaluation of the internal control system etc. (lack of meeting data, participating parties, feedback on the issues discussed).
- In some cases, there has been a lack of documentation on the self-assessment of the entity with regard to the internal control system / structures related to the risk of fraud and error. In other cases a partial analysis of the risk factors was found due to fraud and error.

The Findings – Audit engagements 3

- Liaison between the risks identified during the risk assessment phase, the aggregate risk matrix identified and the audit approach followed in response to these risks have been missing.
- Deficiencies in conducting preliminary analytical review procedures.
- Shortcomings in documenting or performing audit procedures on the verification of statements of financial statements (such as income, payables, recovery of accounts receivable, investments, commitments and contingencies).
- The subsequent event procedures have not been addressed timely or have not been completed.

□ **Reporting**

- Deficiencies in the use of disclosure checklists for financial statements presentation and notes to financial statements and control lists.
- In one case, it is noted that the date of issuance of the opinion is prior to the signing of the financial statements and notes to financial statements.
- Lack of communication with those charged with governance Deficiencies in the form of a management letter (it was drafted, not signed by the engagement partner, did not address the board of directors).
- Communication with the Audit Committee of the company was not carried out.
- Representation letter (in some cases the date after the release of the opinion, in some cases was missing).

Inspection process challenges

- Lack of timely access to the required information, generally not prepared in advance from the audit firms.
- Reluctance, denial or partial access to policies/procedures and audit manuals(especially from big 6 audit firms).
- Information relating to the list of the audit clients and non-audit services provided to them were not prepared. Information provided were related only to PIE audit clients and non-audit services provided to PIE audit clients.
- Information concerning, e.g., the number of audit partner and staff, the budgeted hours vs. the actual hours spent as well as the fees for all the engagements, have been generally not provided.
- Strong resistance to accept the deficiencies evidenced by the inspection process.