

# **PRACTICE MONITORING IN JAMAICA**

## *Contents*

	Paragraphs
1. Establishment of the Audit Monitoring Programme	1
1. Contracting of ACCA	2-3
2. The Monitoring Process	4-11
3. Action Arising from Monitoring Reports	12-13

## PRACTICE MONITORING IN JAMAICA

### BACKGROUND

1. The Public Accountancy Board (PAB) has made arrangements to establish a programme of audit monitoring of its registrants, based on international standards and best practice. These arrangements have been made through collaboration with the Institute of Chartered Accountants of Jamaica (ICAJ), The Institute of Chartered Accountants of the Caribbean (ICAC) and the Association of Chartered Certified Accountants (ACCA). The PAB pursues this in fulfillment of its statutory responsibility (under Section 4 of the Public Accountancy Act) to *"implement, regulate and monitor a system of quality control reviews"* over the work of registered public accountants.

Furthermore, International Federation of Accountants (IFAC) in Statement of Membership Obligation No.1 (SMO 1) on Quality Assurance requires the implementation of a programme of monitoring of audit practice. Audit monitoring, (also known as quality assurance), involves assessing an audit firm's compliance with International Standard on Quality Control No.1 (ISQC 1) which deals with firm-wide audit quality controls and procedures and International Standards on Auditing (ISA), which firms are required to apply in the conduct of audit engagements.

Both ICAJ and ACCA are members of IFAC and ICAC is a regional grouping recognized by IFAC. The Board anticipates that the outcome of this programme will be an increase in public confidence in audit reports will confer additional benefits such as facilitating inward investment and supporting the growth of the capital market in Jamaica. It will also undoubtedly enhance the respect and credibility of members of the profession.

2. PAB has decided to subcontract the performance of audit monitoring in Jamaica to ACCA for a period of four years.
3. PAB took the decision to appoint ACCA to conduct audit monitoring on its behalf on the basis that ACCA has considerable experience and expertise in this area. In the United Kingdom and Ireland, ACCA is a recognized professional body with the statutory responsibility to regulate audit firms, which it licenses for over twenty years. ACCA has also indicated that its monitoring programme is not only compliant with the European Union's Statutory Audit Directive but also with IFAC's SMO 1. ACCA has also been appointed by the national professional bodies or regulators in thirteen countries, to conduct audit monitoring on their behalf. These include five professional accountancy bodies in the Caribbean also under the auspices of the ICAC/ACCA Regional Monitoring Programme.

## THE MONITORING PROCESS

4. The process involves programmed monitoring visits to practitioners by a Senior Practice Reviewer (SPR) engaged by ACCA. The objective of the practice monitoring visits is not to discipline members in the first instance but to
  - (i) Familiarise the Senior Practice Reviewer (SPR) with practitioners and an understanding of the local culture, practices and environment
  - (ii) Determine areas of weakness
  - (iii) Assist practitioners to improve their knowledge and performance having regard to the requirement of the profession
5. Prior to each visit, firm data is harvested for ACCA through the PAB, which requires all practitioners to complete the *"PRE-VISIT QUESTIONNAIRE"*. This compiles the size and scope of the firm's audit business. Each practitioner whose practice is being reviewed is provided with a schedule of data that will be required during the visit, enabling the practitioner to retrieve the data in a timely basis for the visit.
6. The SPR visits normally take a day for sole practitioners with a one to two hour briefing at the start and a closing session of about one hour. The rest of the time is largely spent on audit file reviews. Visits to larger firms can exceed one day.
7. At the end of the visit, the SPR discusses the findings and conclusions with the registrants and makes recommendations for improvement.
8. ACCA then presents a report to the registrant outlining the findings, conclusions and recommendations for improvements.
9. The registrant is required to provide ACCA with a written response within twenty-one days of the report in a prescribed format which must include an action plan for improvement.
10. ACCA then tenders a copy of the report together with a copy of the registrant's response and the ACCA's comments thereon to the PAB.
11. The Practice Monitoring Committee of the PAB then reviews the findings, responses including the action plans submitted by the practitioners and ACCA's recommendations. Where disciplinary action is required, the Committee would provide appropriate details to the Board, and liaise with the SPR as required.

## THE OUTCOMES

12. The Board supervises the monitoring programme through a Monitoring Committee for which provision is made in the Agreement. The Committee is comprised of three PAB non-practising representatives, two non-practising representatives of the Institute and one non-practising representative from the ICAC. That Committee receives and reviews the reports submitted by ACCA to the PAB and presents a summary report to the Board on a regular basis. Where the Monitoring Committee determines that further investigation is appropriate, it so indicates to the full Board and the standard disciplinary process is engaged through its Investigations Committee. The detailed reports go to the Board where disciplinary action is required following the report of the Investigation Committee.
  
13. The approach of the Committee on the first round of visits will be to have dialogue with those practitioners whose reviews reflected unsatisfactory outcomes and indicate that they will be expected to make the necessary improvements by the time of the next visit. It is not anticipated that disciplinary action will be taken in respect of the first round of visits, unless egregious breaches of the law or established standards are identified. The Act requires disciplinary action to be taken against a registrant where there is evidence of:
  - professional misconduct, or of grave impropriety, or infamous conduct or
  - gross negligence or of gross incapacity or
  - evidence of conduct that is discreditable to the profession,

For further detail of the programme, please contact the Registrar.

# Firm's action plan to improve the standard of audit work

## GENERAL INFORMATION

Firm's name		Visit end date:	
Ref number		Senior Practice Reviewer:	

**The firm should read the accompanying instructions for completing this template and then provide its responses in the relevant areas as set out below. There should be a response to each point included in the report on the monitoring visit arising from the audit files inspected and any weaknesses in the firm's overall quality controls for audit work.**

## 1. ACTION THE FIRM HAS TAKEN TO ASSIST IT IN MAKING THE IMPROVEMENTS REQUIRED

The firm should explain **in detail** any external assistance it has obtained since the monitoring visit or which it plans to obtain in future. The response should include:

### Additional audit CPD and training planned for audit principals and audit staff

Firm's response:

Actual/expected implementation date(s):

### Arrangements made with an external training organisation

(The firm should attach copies of contracts or letters of confirmation)

Firm's response:

Actual/expected implementation date(s):

### Other external assistance

Firm's response:

Actual/expected implementation date(s):

## 2. ACTION PLAN TO IMPROVE THE OVERALL QUALITY CONTROLS FOR AUDIT WORK

The firm should explain **in detail** the changes and improvements which are designed to provide it with reasonable assurance that, in future, engagements will be performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner will issue reports that are appropriate in the circumstances. The response should include:

### International Standard on Quality Control 1 (ISQC 1)

Firm's response:

Actual/expected implementation date(s):

### Direction, supervision and review of audit work on individual engagements (ISA 220)

Firm's response:

Actual/expected implementation date(s):

### 3. ACTION PLAN TO RECTIFY THE SPECIFIC DEFICIENCIES FOUND AT THE MONITORING VISIT

For **each area** of non-compliance with International Standards on Auditing (ISA) identified in the report on the monitoring visit the firm should explain **in detail** how it intends to improve its conduct of audit work. The response should demonstrate an understanding of the deficiencies identified and show how you intend to avoid such deficiencies recurring in the future. The response should include:

- changes in the audit approach
- improvements in the recording of work done, evidence obtained and conclusions drawn as a result

Audit area / ISA		Firm's response on the action to be taken including implementation date:
Engagement letters	ISA 210	
Communicating with those charged with governance	ISA 260	
Understanding the entity and its environment <i>including systems &amp; risk identification (business, fraud, etc), laws and regulations</i>	ISAs 315, 240 and 250	
Planning <i>including risk assessment, devising audit approach &amp; tailoring audit programme</i>	ISAs 300 and 330	
Materiality	ISA 320	
<b>Documentation</b> ( <i>General improvements only – deficiencies in other areas which are the result of poor documentation should be detailed in those areas</i> )	ISA 230	
Group financial statements	ISA 600	
Use of service organisations	ISA 402	
<b>Audit evidence</b>	ISA 500	
Existence of tangible assets		
Title to freehold and leasehold property		
Valuation of freehold and leasehold property		
Existence and carrying value of intangible assets		
Title to and valuation of investments		
Existence and completeness of inventory		
Cost and net realisable value of inventory		
Existence, completeness and valuation of work in progress		
Recoverability of trade receivables		
Agreement and recoverability of amounts due from group companies, directors and other related parties		
Validity and completeness of other receivables		
Existence and completeness of bank balances (including loans)		
Completeness of trade payables and accruals		
Completeness of deferred income		
Agreement of amounts owed to group companies, directors and other related parties		
Validity and completeness of other creditors (VAT, PAYE, etc)		

Validity and completeness of provisions		
Completeness of income		
Validity of expenditure		
External confirmations	ISA 505	
Opening balances	ISA 510	
Analytical procedures	ISA 520	
Audit sampling	ISA 530	
Accounting estimates	ISA 540	
Related parties	ISA 550	
Subsequent events review	ISA 560	
Management representations	ISA 580	
Evaluation of misstatements identified during the audit	ISA 450	
Communicating deficiencies in internal control	ISA 265	
Review of financial statements	ISA 500	
Going concern review	ISA 570	
Using the work of internal auditors	ISA 610	
Audit reports	ISA 700	

#### 4. OTHER COMMENTS

The firm may provide any other relevant information or comments on matters not covered above.

Firm's comments:

#### 5. ATTACHMENTS / ENCLOSURES

The firm should list below any documents which form part of this action plan and provide copies to ACCA:

**Date of submission of action plan to ACCA:**

**Prepared/submitted by:**

**Capacity:**

(e.g. contact principal, audit compliance principal)



# **Firm's action plan to improve the standard of audit work**

## **Instructions on completing the template**

### **1. INTRODUCTION**

Following every audit monitoring visit, ACCA requires the firm to produce an action plan which sets out how the firm intends to improve its procedures and remedy the deficiencies found in its audit work. This plan is vital to ACCA being able to assess whether the firm is likely to make the necessary improvements and achieve a reasonable standard of audit work on all files in future.

It is very important that the plan:

- demonstrates that the auditor has understood the deficiency and how to go about making improvements
- is sufficiently detailed to enable ACCA staff to assess the effectiveness of the planned improvements

To assist firms with producing their response, ACCA has developed a template which is emailed to each firm when the report on the monitoring visit is despatched. The following guidelines provide more information on making the plan as coherent and effective as possible.

### **2. GENERAL GUIDANCE ON RESPONSES TO SPECIFIC DEFICIENCIES**

The action plan should be as detailed as possible and specifically written in response to the matters included in the report on the monitoring visit. The firm should avoid brief or generalised responses as these will be considered inadequate by Practice Monitoring and may result in the firm being asked to provide further information. Examples of inadequate responses include:

- “We will implement the recommendations made in the report” or
- “We will ensure that in future we carry out and record the necessary work in this area”

Continued

The response should explain in what way the firm's approach will change to ensure that the procedures it carries out provide appropriate evidence in relation to the audit assertion being tested. Examples of a change in approach include:

1. When attempting to verify recoverability of trade receivables, not relying on debtors' circularisation replies but tracing to subsequent settlement of the sales invoice by the customer; and
2. When attempting to verify completeness of payables, rather than starting the test from the known list of purchase ledger balances, selecting the sample from an appropriate population such as records of after date purchase invoices and bank payments or files of supplier statements.

Having satisfied itself that its audit approach is appropriate to the assertion being tested, the firm will also need to consider whether it is recording its work adequately. Working papers should set out:

The objective:

- The assertion being tested (e.g. completeness, recoverability, ownership)

The method:

- The audit procedures performed, including details of accounting records or documents tested
- Sample size and method of selection

The results:

- Details of each item in the sample
- The results achieved on each item in the sample
- A summary of the results and evaluation of any errors

The conclusion:

- A clear record of the auditor's opinion on whether, based on the evidence obtained, the audit objective has been achieved.

The firm's response on documentation of its work in specific areas may therefore need to include details of how it will improve the recording of one or more aspects of its procedures.

### **3. RESPONSE ON OVERALL PROCEDURES AND QUALITY CONTROLS**

#### **3.1 International Standard on Quality Control 1 (ISQC 1)**

The firm's response on ISQC 1 will depend on the weakness identified in the report. The response should therefore explain, as appropriate:

Continued

- the procedures introduced where none existed previously
- the improvements made to existing procedures
- communication of the firm's procedures to the staff involved in the audit work
- how the procedures are being applied and monitored to ensure that they are effective

### **3.2 Direction, supervision and review of the audit work (ISA 220)**

Very often, deficiencies arise in the audit work because the staff did not understand what they were required to do, or how they were supposed to do it. If the firm believes this to be the case, it should explain **how** it will ensure that its staff will be properly briefed and supervised in future.

Ultimately, deficiencies in the work remain undetected because the final review by the audit principal is not effective. On a number of files which ACCA inspects, the final review concentrates on accounting work and the presentation of the financial statements, rather than the quality and sufficiency of audit evidence.

The firm should consider how it should improve these vital aspects of the audit process and advise ACCA of the improved controls put in place.

### **3.3 Audit CPD and staff training**

Deficiencies in the work may arise because of a gap in technical knowledge or a failure to stay up to date on developments in audit. This may apply to audit principals as well as staff and the firm should design its training and CPD programmes accordingly.

In a number of cases, it is not technical training which is the issue, rather the practical application of knowledge. In this respect, the firm may consider it appropriate that its principals and senior staff attend a practical audit course.

Where the firm arranges additional theoretical or practical training, it should provide details in its response.

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### **3.4 Assistance from a training company**

Assistance can be obtained from a training company if one is available, in one or more of the following ways:

- Undertaking a review of your current procedures and making recommendations for improvement
- Assistance with developing appropriate policies and procedures to ensure compliance with ISQC 1
- Training on the audit process or specific aspects or specialist areas
- Consultation on difficult or contentious areas
- 'Hot' or 'cold' file review services

The firm's response should include details of any arrangements made with a training company.

## **4. OTHER MATTERS**

The template includes a space for the firm to add any other comments or planned improvements which it wishes ACCA to consider.

The firm may, if it wishes, provide copies of relevant documentation to demonstrate the improvements made, but this is not mandatory.

Finally, the response should be dated, the name of the responsible person and their capacity added and the completed form sent back to ACCA, either by post or to the email address from which the template was originally provided.

If further assistance is required, please email [PMDAdmin@accaglobal.com](mailto:PMDAdmin@accaglobal.com) and a member of Practice Monitoring staff will contact you.

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