Approach to presentation

✓ Present lessons learned from previous presentations on POS methodologies
✓ Present the requirements of a POS methodology per the Statutory Audit Directive (SAD)
✓ Present the contents and selected detailed extracts of UK POS methodology (with “live” example stories)
✓ Move to chartering process including discussing applicability of presented POS methodology to your needs and where we go from here e.g. develop an AOCOP community POS methodology
Lessons from previous AOCOP presentations (1)

France

- H3C (the public oversight body) organizes the system of supervising auditors together with CNCC (national professional body) and CRCC (34 regional professional bodies).
- H3C directly supervises a significant number of public listed and interest entity (PLE and PIE) audits and auditors.
- CNCC and CRCC supervises the other audits and auditors.
- Not much information on how H3C supervises CNCC and CRCC.
Lessons from previous AOCOP presentations (2)

Austria

- Austrian Auditor Supervisory Authority (ASA) consists of 7 practitioners who coordinate and review the results of a “peer review system”.
- Austria has a monitored peer review system
Lessons from previous AOCOP presentations (3)

Macedonia

- Although Macedonia has a public oversight body in the form of CAOA and although the professional audit body, ICARM, is implementing a nascent quality assurance system, the CAOA is still in the process of establishing a public oversight methodology

Croatia

- Croatia is in the process of introducing a public oversight methodology
Lessons from previous AOCOP presentations (4)

Conclusion

• Organization of POS is reasonably clear
• Not much to learn from previous presentations in terms of the form and content of a public oversight methodology
• Public oversight methodologies are thin on the ground
• However …. 
The Statutory Audit Directive (SAD) requires that:

• Member States should organise an effective system of public oversight for statutory auditors and audit firms (paragraph 20 and Article 32.1)
The Statutory Audit Directive (SAD) specifies that:

The system of public oversight shall have the ultimate responsibility for the oversight of:

(a) The approval and registration of statutory auditors and audit firms
(b) The adoption of standards on professional ethics, internal quality control of audit firms and auditing, and
(c) Continuing education, quality assurance and investigative and disciplinary systems

(Article 32.4)
Accordingly, a POS needs to cover:

(a) The approval and registration of statutory auditors and audit firms
(b) The adoption of standards on professional ethics, internal quality control of audit firms and auditing, and
(c) Continuing education, quality assurance and investigative and disciplinary systems
(SAD Article 32.4)
A POS methodology

SAD requirement:
(a) The approval and registration of statutory auditors and audit firms
(b) The adoption of standards on professional ethics, internal quality control of audit firms and auditing, and
(c) Continuing education, quality assurance and investigative and disciplinary systems

UK POS Methodology:
A. Audit registration process
C. Audit quality monitoring
D. Complaints and discipline system
E. CPD monitoring process

Legislation
UK’s Approach to POS methodology

1. Specify the requirements of each of the four areas of the methodology which derive from UK national law which in turn is based on the SAD

2. Specify the method/work programme steps to test whether those requirements are being satisfied by the professional body

Do the above for each of the four areas: Audit registration process, Audit quality monitoring, Complaints and discipline system, and CPD monitoring process
A - Audit registration process

Requirements:

1. The body must have rules that restrict eligibility for appointment as a company auditor, in the case of a firm, to firms where individuals responsible for company audit work on behalf of the firm hold appropriate qualifications and the firm is controlled by qualified persons.

2. The body must demonstrate that the rules and practices relating to the admission and expulsion of members, the grant and withdrawal of eligibility for appointment as a company auditor, and the discipline it exercises over its members are fair and reasonable and include adequate provision for appeals.

3. The body must have rules require that persons eligible to be appointed company auditor comply with the requirements of section 35 or 36 regarding the register of auditors and information about firms to be available to public.
A - Audit registration process

Requirements:

4. The body must have satisfactory arrangements for taking account, in framing its rules, of the cost to those to whom the rules would apply of complying with those rules and any other controls to which they are subject.

5. The body must be able and willing to promote and maintain high standards of integrity in the conduct of company audit work and co-operate, by the sharing of information and otherwise, with the Secretary of State, POB and any other authority, body or person having responsibility in the United Kingdom for the qualification, supervision or regulation of auditors.

6. The body must have rules and practices that are designed to ensure that the persons eligible under its rules for appointment as a company auditor are fit and proper persons to be so appointed. For a body corporate, the body must take into account any matter relating to any director or controller of the company or other group company, or partner, director or controller of a partnership.
A - Audit registration process

Work programme:

1. Perform a walk-through test of a recently approved registration, or a sample of recently approved registrations. Confirm that the systems described in the systems notes were followed in each case. (ref A1)

2. Analyse the number and type of registrations in the year and compare to the recent trend. Discuss reasons for trends and any particular issues apparent in the current year. (ref A2)

3. Review any applications for registration refused or registrations removed in the year e.g. by the body’s regulatory committee. Obtain explanation of reasons behind refusal or removal of registration and walk through the process of one or more cases. Look for any evidence of firms refused by one body applying to other bodies. (ref A3)

4. For a sample of registered auditors from the Register of Auditors, check details held on the body’s own system including confirmation of annual return received and checked, details of inspections for audit monitoring or training organisation. (ref A4)
A - Audit registration process

Work programme:

5. Attend a meeting of the regulatory committee and follow the trail of registration cases discussed at the meeting to confirm appropriate operation of systems. (ref A5)

6. Follow through cases brought to the attention of the regulatory committee by the FRC’s Audit Inspection Unit, confirming that appropriate action is taken.

7. Assess the appropriateness of the process for appointing committee members. (ref A6)

8. Review a sample of individuals newly named as audit principals in the year, confirm that their audit qualification was confirmed and that other necessary confirmations were made (ref A7 and RQB file B1)

9. Discuss with the Head of Regulation major issues, trends and concerns with registration and discuss the appropriateness and level of detail of the regulatory regime and testing programme. (Ref A2)
A - Audit registration process

Work programme:

10. Discuss the Pathways scheme and review the applications made to this scheme both those accepted and rejected. Ensure appropriate checks are carried out re: the individuals’ qualification, fitness and proprietary. Ensure all results are justified with clear explanations. [Note: this step is specific to the ICAEW] (ref A8)

11. Discuss progress of implementation of recommendations from the prior year’s reports and where possible view evidence of this. (ref A9)
A POS methodology

UK POS Methodology:

A. Audit registration process
B. Audit quality monitoring
C. Complaints and discipline system
D. CPD monitoring process
E. Student registration
F. Tracking student progress
G. Monitoring approved training offices
H. Examinations
Discuss applicability of presented POS methodology

To what extent does the presented POS methodology satisfy your needs? Consider:

i. Different POS legislative requirements will result in different POS methodology requirements ➔ Need to compare legislative requirements

ii. Is there demand to develop a common “core” AOCOP POS methodology?

iii. Is the development of a methodology sufficient? ➔ How do we address enabling environment issues?
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