FSC Newsletter

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Financial Services Commission

Audit Monitoring

Initial Assessment Findings

This newsletter outlines the main issues arising as a result of the initial stages of the audit monitoring process carried out by the FSC during May and June 2012 in accordance with Part VI Section 29 of the Financial Services (Auditors) Act 2009.

Based on the initial assessment questionnaires and meetings carried out, some of the immediate issues identified were as follows:

Ethical/independence requirements

All auditors must be aware of the IESBA Code of Ethics[1]. During the course of the initial assessment meetings, there were often references to the APB Code of Ethics. Although there are minimal differences between the two, manuals and working papers often reflected the incorrect code.

It should therefore be noted that the use of PASE is not available in Gibraltar as this is an ethical standard issued by the APB and therefore outlines alternative provisions for audit firms that have small audits in the UK and therefore does not apply in Gibraltar. Section 26 of the Financial Services (Auditors) Act requires the use of International Auditing Standards and Section 4 of the Financial Services (Auditors) Regulations 2010 refers to the use of the IESBA Code of Ethics.

The auditor needs to consider the independence on each audit engagement and ensure that appropriate safeguards are implemented in accordance with the IESBA Code of Ethics. The independence threats that seem to be apparent in Gibraltar are;

- long association;
- provision of accountancy services; and
- fee income.

The above examples create threats such as familiarity and self review.

Long association creates a familiarity threat as close relationships are built with the audit client and would therefore require safeguards. Regular partner rotation is encouraged when this threat becomes an issue.

By also providing non-audit services, a self review threat is created.

A threat to independence is created when total fees from an audit client represent a substantial portion of the total fees of the firm. As there is no specific reference to a threshold in the IESBA Code of Ethics, the limit is taken as 10%.

[1] Available online at; http://www.ifac.org/sites/default/files/publications/files/2012-IESBA-Handbook.pdf

It is important that auditors remain objective and independent. Being objective will enable an auditor to give a fair and impartial consideration to all matters which are relevant. Independence is freedom from situations and relationships which would otherwise make others think objectivity is impaired (or could be).

From the initial assessment meetings, it was identified that there was often a lack of consideration of independence. Given the size and nature of some of the practices in Gibraltar, external resources to provide safeguards may be required.

Accepting new appointments/re-appointment

Some of the example audit engagement letters reviewed by the FSC did not appear to cover the necessary requirements of ISAs and often included references to UK statute. It is therefore important that auditors ensure these are updated and amended as necessary prior to undertaking audit engagements.

The use of acceptance/re-acceptance checklists for each audit undertaken were often not being used. These should be completed for each audit under consideration to ensure important issues are being considered and documented.

Audit engagement procedures

A number of audit procedures and checklists used by auditors were UK based and often these were not being tailored to laws, regulations and professional standards applicable in Gibraltar.

Auditors should establish and document their policy for engagement quality control reviews (EQCR). In a significant number of cases this documentation was limited. Whilst the FSC appreciates that the circumstances in which some auditors may require such a review could be rare, there should be arrangements in place so that one can be performed if it becomes necessary. Given the nature of some of the audit practices in Gibraltar, external assistance to carry out the EQCR role may be required.

A number of auditors did not have an accounts disclosure checklist. Although there is no specific checklist available in Gibraltar, the FSC understands that some firms (often the larger firms) have produced their own checklists and others use UK checklists on the basis that the requirements are very similar to those in Gibraltar.

Monitoring

Auditors need to establish how they will carry out and document periodic audit compliance reviews. These reviews are usually carried out annually and should cover both a review of firm-wide procedures and a review of completed audit work (cold file review). Cold file reviews need to be carried out by a suitably qualified person, not involved in the audit, so in numerous cases auditors may need to engage some external assistance for this. The auditor should keep a file note to demonstrate the extent and timing of the annual review of whole firm procedures. This area of monitoring was often seen to be lacking.

Audit personnel – recruitment, training, development and allocation to assignments

The FSC identified numerous cases where the appraisal system was insufficient and often these systems did not extend to Directors. The FSC appreciates that many auditors are aware of this matter and are taking steps to amend this.

It was observed that some auditors did not undertake continuing professional development, as required under Part II Section 13 of the Financial Services (Auditors) Act 2009 and the IESBA Code of Ethics, and often it was apparent that more training was required on current auditing standards (ISAs). In a number of cases, although a declaration was generally being made by qualified individuals due to professional qualification requirements, no detailed records were being kept to demonstrate that audit competence for the work carried out was being maintained. This continuous professional development was, at times, not extended to the non-qualified audit staff.

Other

Auditors are required to review the details of ISQC 1 and document the policies and procedures for each area, to the extent not already covered through actions taken to address other specific requirements. This was often not the case and therefore the policies and procedures were not available to staff.

The FSC understands that there are a number of audits that have back to back/inter-office sign off arrangements. The FSC considers that these arrangements could present a risk that the signing firm has insufficient involvement and would be unlikely to be regarded as driving/controlling the audit, especially as the concept of signing partner does not exist in the clarified ISAs. The FSC plans to explore this further during the full visit stage when it can be observed how these procedures are applied in practice.

This newsletter is not exhaustive and only points out key areas that were identified during the initial stages of the audit monitoring process.

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