

# *Audit Monitoring Report 2020*

# Contents

Introduction	1
Professional Standards' Governance	3
<b>PART 1 - AUDIT QUALITY UNDER THE SPOTLIGHT</b>	<b>4</b>
Why is audit quality important?	4
The future of audit	4
Audit quality monitoring	4
Measuring audit quality	4
Overall visit outcomes	6
What happens after the visit?	7
Working with other regulators	8
<b>PART 2 - KEY FINDINGS FROM THE QAD'S 2019 MONITORING VISITS</b>	<b>9</b>
Scepticism and areas of judgement	9
Top 3 - most common findings	11
Tools for improving performance	13
<b>ICAEW AUDIT RESOURCES</b>	<b>14</b>

# Introduction



I am delighted to have been asked to write the introduction to this important report. There has been a great deal of discussion over the past couple of years about the need to improve audit quality and about the causes of recent well-publicised audit failures. While ICAEW has not been involved in reviewing the quality of PIE (public interest entity) audits since the Financial Reporting Council (FRC) became the Competent Authority for audit in 2016, ICAEW has continued to play a significant role in monitoring the quality of audit work among its 2,600 audit-registered firms in its role as a Recognised Supervisory Body (RSB). Given its insight into the current quality of audits, ICAEW has welcomed a number of the initiatives coming out of various reviews which are designed to improve audit quality.

The results of ICAEW Quality Assurance Department (QAD) reviews of non-PIE audit work by ICAEW audit-registered firms when combined with the FRC's recently published audit quality inspection report, give a broader view of the quality of PIE and non-PIE audit work at the largest accountancy firms. The QAD completed reviews at 496 accountancy firms (including the largest firms) and therefore this report offers a detailed view of audit quality across all sizes of firms.

I know I speak for all members of ICAEW's Regulatory Board (IRB) and the Audit Registration Committee (ARC) in expressing our disappointment that the comparative figures for audit quality results have remained largely static this year compared to prior years. Due to our review cycles (only the largest firms are reviewed every year) the firms reviewed in 2019 will be substantially different to those reviewed in 2018 and 2017. While it will not be possible, therefore, to gauge improvements in the 2019 results for many firms that were required to undertake remedial action in 2018, it is still concerning that 8% of audits required significant improvements and 18% of audits required improvements. We do not consider these to be acceptable figures. To help restore trust in the quality of audit work, it is important that we see a reduction in the number of audits which 'require improvement' and 'require significant improvement'.

In addition to setting out the results of the QAD's reviews, Part 1 of this report details the actions which were taken by the ARC in relation to firms which were found to have carried out poor quality audit work. It is important to note that the ARC is an independent committee, consisting of an equal number of ICAEW member volunteers and lay representatives with a lay Chair, Rama Krishnan. It is the ARC which ultimately takes decisions on whether firms referred to it by the QAD should retain their registrations.

I should add that the IRB conducted a quality review of the work of the ARC during 2019. IRB members were extremely impressed at the dedication of the members of the committee, the depth of their discussions and their determination to protect the public and users of audit services from poor quality work. ARC members perform an annual check on the work carried out by the Professional Standards Department (PSD) under delegated powers from the committee. The FRC Oversight Team also carries out its own annual inspections on the quality of the QAD's monitoring work and on the remedial actions taken by staff and the ARC.

In Part 2 of this report, Trevor Smith, QAD Director with responsibility for audit, summarises the key findings from the 2019 monitoring visits, analyses the areas in need of improvement and also provides examples of good practice.

So what can be done to improve the results? The analysis in Part 2 notes the number of recurring areas which were found to require improvement such as the lack of audit evidence on audit files supporting key management judgements or a lack of professional scepticism. I believe that ICAEW is playing its part in trying to improve the quality of audit in a number of ways. The QAD reviewers continue to spend valuable time with firms discussing the findings and how firms might address them and the ARC is continuing to impose robust remedial action plans for firms whose audits have been found to require significant improvement, and removing registrations where no improvements are made. I understand that a review is currently being led by ICAEW's Learning & Professional Development Department into CPD requirements. I am also aware of the considerable increase in the amount and quality of educational material which has been made available to firms by various ICAEW departments, particularly the Technical Strategy Department.

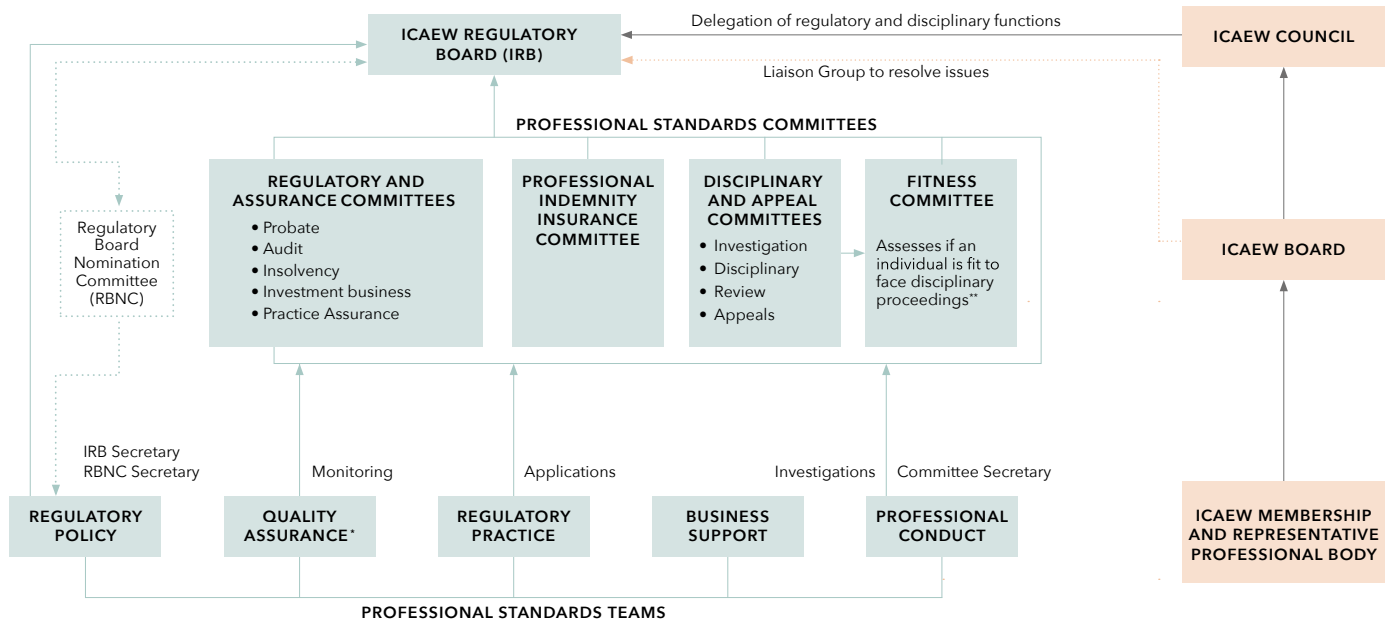
These educational initiatives also include the continued widespread use of the two innovative training films produced by PSD by nearly all of the largest international accountancy networks all around the world. While it's fantastic to hear that subtitled versions of both the *False Assurance* and *Without Question* films are being used in all continents, it is disappointing to note that the number of UK audit firms outside of the larger networks using the films has not matched expectations. This is despite the films bringing to life in an extremely powerful way many of the areas Trevor highlights as requiring significant improvement. I encourage all ICAEW audit-registered firms to take advantage of this very effective form of training.

The achievement of better audit quality will require concerted effort by both ICAEW and all ICAEW audit-registered firms. I hope that we will see signs of improvement in next year's results.

I would like to finish by thanking the members of the ARC and the QAD staff who have worked so hard to monitor and improve audit quality and for their assistance in producing this report.

Michael Caplan QC  
Chair, ICAEW Regulatory Board (IRB)

# Professional Standards' Governance



\*Including AML supervisory responsibilities

\*\*Also considers readmission applications and whether applications that disclose potential fitness issues should be approved.

# *Part 1 – Audit quality under the spotlight*

## WHY IS AUDIT QUALITY IMPORTANT?

Audits matter because they underpin confidence in financial reporting by companies. This, in turn, supports the orderly functioning of financial markets, where shareholders, investors and other stakeholders can form a view about an audited entity built on trustworthy and transparent information. If audits are not carried out properly and fail to detect significant problems in a company's accounts, the consequences can be far-reaching not only for shareholders, but also for wider stakeholders such as employees, customers, suppliers and pensioners, who have a strong interest in the success and viability of the company.

The coronavirus pandemic poses significant additional risks for many businesses, making delivery of a high quality audit even more important.

## THE FUTURE OF AUDIT

Various corporate collapses, most notably that of Carillion in 2018, have led to increased political and public scrutiny of the audit profession, and have eroded trust in auditors. In response, three separate reviews have looked at different aspects of the market: the Kingman review of the Financial Reporting Council (FRC); the Competition and Markets Authority (CMA) market study into the supply of statutory audit services in the UK; and the Brydon review of the quality and effectiveness of audit. The Brydon report was published in December 2019, making a significant number of recommendations. While the review was focused on the audit of Public Interest Entities (PIEs), many of the concepts discussed apply equally to non-PIE audits, for example more focus on education to ensure the appropriate auditor mindset, including developing enhanced scepticism together with fraud awareness, and increased use of technology. The Brydon report can be found at [GOV.UK](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/428219/brydon-report-2019.pdf) (The quality and effectiveness of audit: independent review.)

## AUDIT QUALITY MONITORING

### The function of monitoring and ICAEW's regulatory role

A well-respected audit profession consistently undertaking high quality audits has a key role to play in underpinning market confidence.

Audit quality monitoring provides the evidence to assess audit quality, drives firms to improve standards and enables regulatory bodies to impose remedial measures and/or sanction firms for poor quality work when appropriate.

ICAEW has an important regulatory role as the largest Recognised Supervisory Body (RSB) in the UK, currently registering around 2,600 firms for audit. ICAEW's philosophy is to be a robust and transparent regulator. At the same time, one which offers help and support to firms where appropriate.

The FRC monitors the audits of PIEs (fully listed companies, banks and insurance providers), the procedures relating to these engagements, together with certain other 'retained audits'. The QAD is responsible for monitoring all other audit work in ICAEW's audit-registered firms, from the Big Four firms to sole practitioners. The QAD also carries out monitoring visits to firms registered under the Crown Dependencies' recognised auditor oversight regime.

## MEASURING AUDIT QUALITY

This section explains how audit quality is measured and the implications of poor quality audit work.

### How the results of audit file reviews are classified

Each audit is reviewed according to the following classifications:

- **Satisfactory:** no concerns about audit quality although the QAD may identify some minor improvement points.
- **Acceptable:** limited concerns in relatively isolated areas.

- **Improvement required:** more gaps or weaknesses in evidence or more widespread weaknesses in documentation.
- **Significant improvement required:** significant concerns over the adequacy or appropriateness of audit evidence or judgements in one key area or multiple issues across several different areas.

Visit [icaew.com/auditguidance](https://www.icaew.com/auditguidance) to find out more about the audit visit process.

**Audit file review results**

The chart below shows the results of audit file reviews in 2019 compared to 2018 and 2017. The picture is virtually static. While audit quality continues to be acceptable or better on a good majority of the audits reviewed, it’s disappointing that around a quarter of audits are still not as good as they should be.

One of the extra measures introduced to help to improve audit quality is for firms to be requested to carry out root cause analysis on any more significant findings. This is an important step to help bring about sustained improvement. More information is provided about the benefits of root cause analysis in Part 2 of this report.

The results of the QAD’s recent assessments of non-PIE audit files at large firms can be seen at the end of the FRC’s July 2020 Audit Quality Inspection Reports. These are available on the FRC website, [frc.org.uk](https://www.frc.org.uk)

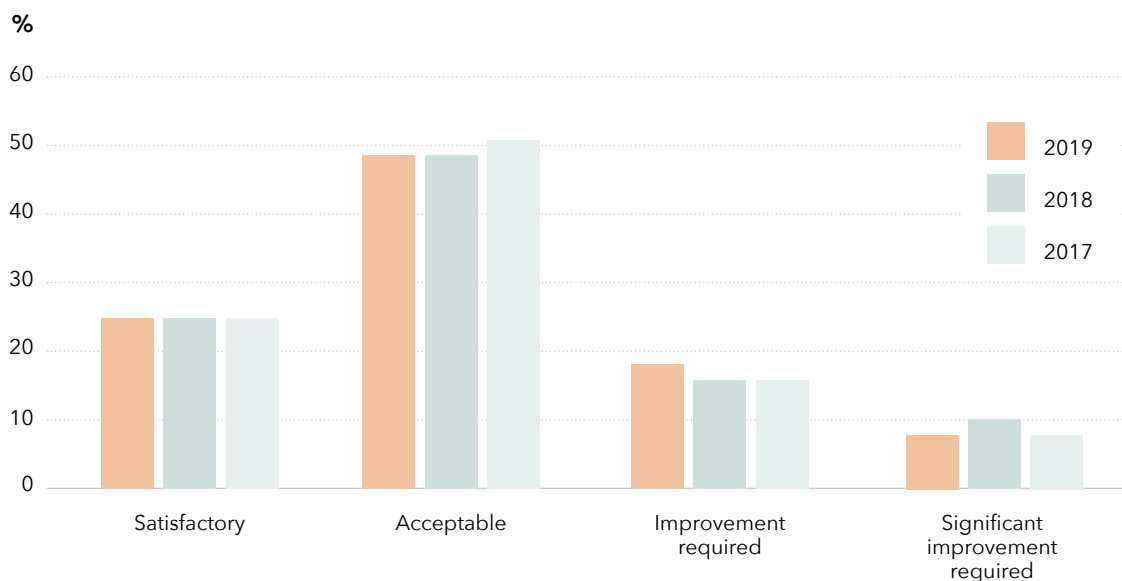
**What happens if an audit needs improvement or significant improvement?**

There are two key considerations. Firstly, what action is needed to ensure that the firm makes the required improvements? And secondly, how can clients, and the public generally, be protected from poor audit work while improvements are monitored?

**Improving audit quality**

Overall conclusions are drawn at a firm-wide level for each monitoring visit. Conclusions on each firm incorporate the QAD’s assessment of overall audit quality (taking into account all file reviews carried out at the firm) and the QAD’s assessment of the adequacy of the firm’s policies and procedures, together with an evaluation of the firm’s commitment and ability to address the findings.

**Comparison of 2019 monitoring results to 2018 and 2017**



Audits needing improvement or significant improvement are likely to attract strong follow-up action unless firms can demonstrate these are isolated examples and that they have taken appropriate steps to understand root causes and prevent recurrence.

If, for example, four audits are reviewed, and three are acceptable with one needing improvement, the QAD may conclude that the firm is able to address any issues. The QAD would, however, need to be satisfied that the firm had explored the root causes and developed an appropriate action plan. Without a strong response from the firm, the QAD will put in place some follow-up actions to enable the firm’s progress to be monitored.

If the QAD has deeper concerns, for example, the QAD considers that the issues are more widespread, or serious in nature, the QAD must refer the firm to the Audit Registration Committee (ARC) and some form of regulatory or disciplinary action is likely to follow. More detail on the measures the ARC can take is given on page 7.

**Protecting the public interest**

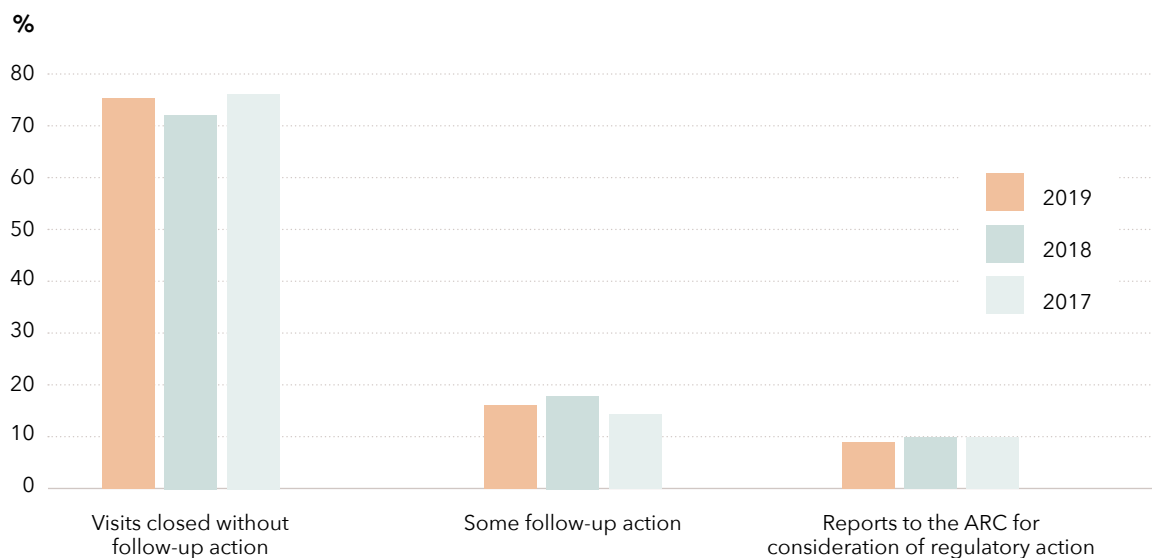
Assessing an audit as needing improvement or significant improvement does not mean the audit opinion was incorrect or that the financial statements are materially misstated. If a firm has failed to obtain sufficient audit evidence to support key areas, the ARC may require the firm to remediate this by seeking additional evidence. However, there are some cases where the audit opinion may be incorrect and the financial statements are materially misstated. If so, the ARC may require the firm to notify this to the client and agree an appropriate course of action. Ultimately it will be the client’s decision as to what to do; it may decide to make a prior period adjustment in the next year’s financial statements, or file amended financial statements.

**OVERALL VISIT OUTCOMES**

This section sets out the overall outcomes of audit monitoring visits in 2019.

The chart below shows that the majority of our 2019 visits were concluded without any further regulatory action. These results indicate a broadly similar position to previous years but a slight reduction in more serious outcomes. The QAD review a different population of audit firms each year so year-on-year comparisons are difficult.

**2019 visits - visit outcomes**





### Crown Dependency visit results

7 visits, none requiring follow-up action
2 files satisfactory
2 files acceptable
3 firms with no audits

## WHAT HAPPENS AFTER THE VISIT?

### Visits closed without follow-up action

As part of the visit process, firms must provide a written response to the matters the QAD raises, including details of actions planned and taken. If the QAD is satisfied with the firm's response and considers that the firm has both the commitment and ability to make any improvements needed, the visit will close without any further action. The final assessment will take into account a range of factors including the scale of improvement required and previous visit history.

### Some follow-up action needed

Where some follow-up action was needed (16% of firms in 2019), firms were asked to provide further information. This ranged from providing further details of planned actions, to submitting the results of external cold file reviews, details of training courses or improved audit programmes. Submission of this information usually gives the QAD the reassurance it needs that the firm is addressing the matters raised. If not, additional evidence of improvement may be required, the QAD may bring forward its next visit, or the firm will be referred to the ARC for regulatory action.

### Regulatory action needed

In more serious cases (9% of firms in 2019), the QAD wrote detailed reports for the ARC so it could decide what actions to take.

The ARC has a range of options at its disposal. It can:

- impose conditions; typically these would include external hot or cold file reviews with submission of the results in order to monitor firms' progress;
- impose restrictions, for example restricting a firm from taking on any new audits without ARC approval;
- offer a regulatory penalty or refer firms to the ICAEW Professional Conduct team for further investigation; or
- withdraw audit registration (in the most serious cases).

The ARC will usually seek to provide an opportunity to a failing firm to show that it can improve by imposing conditions requiring checks to be made on future audits while protecting its clients and the public. Only if improvements are not seen will the ARC decide to withdraw a firm's registration.

### Case study

On one of its visits, the QAD found that audit work needed significant improvement. Concerns included doubts over the revenue recognition policy on one of the audits reviewed. The QAD also found that no proper cold file reviews had been carried out for some years except for an external cold review the year before the visit. The QAD concluded that CPD had not been effective in keeping the firm up to date.

The ARC placed conditions on the firm so that it was:

- restricted from carrying out any compliance reviews for other firms;
- required to submit a training plan and explain how it was addressing the revenue recognition issue; and
- required to submit the results of external hot file reviews. These hot reviews serve the dual purpose of protecting the public interest (as the reviews have to be carried out before the firm signs the audit report) and enabling the QAD to assess progress.

The firm explored the revenue recognition issue with the client which led to a restatement in the accounts. The firm's training plan was acceptable and some good progress was seen after the third hot file review. On that basis, the condition was reduced to cold file reviews to see whether the firm could produce a good quality audit without the safety net of a hot review. The results of two subsequent cold file reviews were disappointing, showing a number of repeat issues, including a lack of audit evidence in two important areas. Rather than ask for further external reviews, the QAD was asked to revisit the firm to assess the situation first-hand due to the lack of progress.

The QAD found that the firm had not adequately addressed the cold review findings and had not managed to maintain the improvements it had previously made. As a result, significant gaps were found in audit work in key areas and other significant gaps in documentation. The firm had not adequately safeguarded an independence threat.

While the firm was willing to make the required improvements, the ARC was very concerned at the lack of progress and decided to withdraw the firm's audit registration.

## WORKING WITH OTHER REGULATORS

The QAD's senior managers liaise with the FRC's Audit Quality Review team, especially regarding the monitoring of larger firms and other firms with PIE audits.

The QAD also keeps in touch with other recognised supervisory bodies such as Chartered Accountants Ireland and the Institute of Chartered Accountants of Scotland to share experience and discuss topical issues and common challenges.

During 2019, the Charity Commission carried out a review of the financial statements of a significant number of charities, assessing compliance against its new benchmark. The Charity Commission passed the QAD its findings for those cases where ICAEW firms had signed an audit or independent examiner's report. The Charity Commission was especially concerned about the lack of all the required disclosure of related party transactions. The QAD wrote to all the relevant firms to draw their attention to the Charity Commission's findings and requested firms to provide further details where related party disclosures had been incomplete. Firms were asked to report any non-disclosure in this area to the Charity Commission as a matter of material significance.

Visit [GOV.UK](https://www.gov.uk) to read the results of the Charity Commission's review.

## *Part 2 – Key findings from the QAD’s 2019 monitoring visits*

By Trevor Smith, QAD Director

In this part of the report, we focus on some key areas and highlight examples of good practice, as well as aspects for improvement. Firms should use this content to maintain and/or improve the quality of their audit work.

### **SCEPTICISM AND AREAS OF JUDGEMENT**

In the current economic climate and with auditor effectiveness under scrutiny, professional scepticism has never been more important. In this section, we look briefly at three areas involving key areas of judgement, and where scepticism and robust challenge of management are essential.

While not necessarily our most common findings, problems in these areas are often fundamental to the audit. Many of the issues we raised last year still apply, but we are also starting to identify more examples of good practice in these areas.

#### **Going concern**

Given the uncertainties stemming from Brexit, and now the coronavirus pandemic, going concern is more likely to be a significant risk for many businesses. The QAD continue to see weaknesses in testing, insufficient scepticism and challenge of management, and inadequate documentation. The greater the risk, the stronger the evidence needs to be, and the more robust the auditor’s approach should be.

#### **Good practice examples**

- Consideration of worst case scenarios when assessing forecasts.
- Use of a restructuring specialist who planned various scenarios and stress-tested assumptions.
- Careful consideration of Brexit implications.
- Use of a flowchart to work through various going concern scenarios to identify the appropriate form of audit opinion.
- Thorough documentation of thought processes supporting conclusions and demonstrating scepticism and challenge of management.

#### **Areas of concern**

In other cases there may be detailed forecasts, but no evidence of detailed review or testing by the audit team. There may be no or only superficial assessment of management assumptions (eg, growth and discount rates) for reasonableness, no sensitivity analysis on management forecasts. Or the auditor’s sensitivity analysis may point towards a potentially unsustainable position, with no proper follow-up. Historic accuracy of forecasts can provide a useful indicator of whether current forecasts are likely to be realistic, but this aspect is often not considered. Smaller clients may not have formalised forecasts, and there may be no alternative evidence on the audit file. Firms still need to explore with these clients how they have looked ahead for the required 12 months from the date of approval of the financial statements.

You can find further guidance on the audit of going concern, including the particular challenges relating to the coronavirus pandemic at [icaew.com/coronavirus](https://www.icaew.com/coronavirus)

#### **Long-term construction contracts**

We highlighted the audit of long-term construction contracts in last year’s report in our section on revenue testing. When audit teams are not experienced in auditing such businesses, there is a risk they will fail to tailor their approach sufficiently to reflect the way that revenue is recognised, and end up with a fragmented approach. Such businesses are likely to include significant judgements relating to contract performance and estimates for provisions, where scepticism and good quality documentation are essential.

### Good practice examples

- Clear evidence of understanding of the contracts system and impact on the relevant line items in the accounts.
- Attendance by the Responsible Individual (RI) at a number of contract meetings with management.
- Good examples of challenging management on judgements on specific contracts.
- Clear risk assessment applied to selecting sample of contracts for detailed review.

### Areas of concern

We are still seeing cases of weak auditing, for example firms auditing the relevant line items in isolation with insufficient consideration of judgements. Costs to complete can be difficult to audit well, given the element of judgement involved. We do not see a clear understanding of the basis for management's judgements, or any real challenge, especially where there is contrary evidence indicating that a contract may not be going to plan or be as profitable as predicted by management.

### Property valuations

Assessing the appropriateness of property valuations can be challenging. Firms need to objectively assess the evidence and test assumptions against whatever reliable data is available. In some cases they may need to rely on specialists.

### Good practice examples

- Use of tailored templates to drive consideration of all the relevant requirements for relying on experts.
- In-depth evaluation of work of management experts, including comparing assumptions with industry data.
- Assessing the reliability of previous valuations by management.

### Areas of concern

We sometimes find there is very little evidence to support valuations, and where there is a formal valuation by a specialist valuer (usually a management expert), little or no evidence of evaluating their competence and objectivity, the relevance and reasonableness of assumptions, or completeness and accuracy of source data. These steps are required by ISA 500.

In other cases, property valuations may be provided by management, and there may be little direct evidence to draw on to support such estimates. Sometimes there is no attempt by the auditor to assess such valuations objectively. Management may provide a written representation, but this does not provide any evidence of reasonableness. We have come across cases where the bulk of an investment property portfolio has been valued by professional valuers, leaving one or two exceptions which the firm has done nothing to consider.

We have come across firms that say they do not have the expertise to assess assumptions, in which case they should be considering whether to engage their own expert. However, with some further thought and discussion, it may be possible to obtain some independent evidence without having specialist knowledge. For example, looking at rental yields or sale values for comparable properties. Similar considerations apply to valuation of other assets.

## TOP 3 - MOST COMMON FINDINGS

We link all our findings back to auditing standards. Below are our top 3, which have remained at a similar level for several years. Many findings will not be a source of serious concern about the audit overall and may occur in audits assessed as acceptable.

### 1 Audit evidence (ISA 500)

The most common significant area of weakness on audit files we review. In particular in the testing of revenue, fixed assets, stock and work in progress, and other areas of professional judgement such as goodwill and other intangibles.

### 2 Audit documentation (ISA 230)

Significant issues with documentation arise when firms have not recorded important aspects of their audit work on key assertions in material areas, or key areas of judgement.

### 3 Identifying and assessing risk (ISA 315)

We cannot always see how well the auditor understands the client's business and activities or that the required design and implementation testing has been done. We also sometimes identify apparently significant risks not identified as such by the firm.

## The importance of good documentation

Audit programmes and checklists are important and useful to prompt consideration of relevant matters and as a completeness check. However, we see cases where too much reliance is placed on these, with a 'tick-box' approach to completing them without sufficient supporting explanation on the audit file.

Documenting consideration of estimates, judgements and uncertainties, and demonstrating scepticism needs careful thought and attention, and cannot be adequately covered by a tick on a checklist.

### Good practice examples

- A highlights summary for each key section of the audit file.
- Summary working papers identifying relevant assertions with links to detailed audit work.
- Detailed step-by-step templates to drive consideration of all relevant factors in complex areas.
- Clear cross-referencing from programmes and checklists to the underlying audit work.
- Memoranda covering areas of judgement, including evaluation of contradictory or conflicting evidence, detailed evidence of challenge of management and a clear trail to support the conclusion.
- Use of freeform planning documents to supplement standard planning templates and checklists.

### The importance of effective review

So why don't firms' own quality control procedures identify the issues we find? Of course, the answer is 'it depends', but we think many of our findings should have been picked up by manager or RI reviews before completion of the audit.

For example:

- gaps in audit programmes
- tests not fully completed
- exceptions not followed through
- clear logic flaws in tests
- poorly supported conclusions
- faulty cross-referencing
- uncleared queries
- lack of a clear trail from lead schedules to the financial statements
- missing documents
- obvious errors in financial statements.

While the RI has overall responsibility for the audit, we do not expect RIs to review everything in detail themselves. Depending on the size of the audit team, we would expect them to rely on the team, and, say, a manager to do a detailed review of all areas. We would, however, expect the RI to review areas of significant risk. Sometimes this 'review' appears to take place by discussion rather than review of key working papers on the file, with the result being that the documentation on the file is not as the RI had assumed.

Firms do not always appear to allow sufficient time for in-depth review, and it is possible that senior team members or managers may not fully appreciate what is expected or required. The firm and RI are responsible for ensuring relevant audit personnel have sufficient time and are competent to perform the review function, although in some cases this skill may be assumed rather than actively trained. Some firms provide training to new managers on how to carry out effective reviews, and some build in testing of review skills into their management recruitment processes.

### Good practice examples

- Clear evidence of RI's involvement throughout, including approval of planning and active involvement in key areas.
- Clear evidence of the RI's review of detailed work in risk areas.
- Where there was a change in the RI before completion, preparation of a detailed working paper documenting the handover process.
- In a larger firm, review of draft financial statements and audit report wording by an in-house technical specialist.
- Additional focused review of every audit by the audit compliance partner.
- In smaller firms, external hot file reviews on unusual, complex or higher risk audits.

## TOOLS FOR IMPROVING PERFORMANCE

### Effective cold file reviews

Effective cold reviews enable audit firms to identify areas where audit work should be improved on a timely basis. We come across firms that have very thorough reviews, but fail to take appropriate action to address the findings. As a result we may see the same issues recurring time after time.

Audit Regulation 3.20 requires firms to have cold file reviews at least once a year. In our experience, firms often benefit greatly from having external reviews as they provide a fresh and more objective perspective. Reviews can be done in-house as long as there is an independent review (ie, a review by a suitably experienced individual who had no involvement in the audit) at least every three years. Smaller firms may not have the resources in-house to do independent reviews, in which case they should engage an external reviewer at least every third year. They should also continue to conduct cold reviews in each intervening year as required by Audit Regulation 3.20, but these can be carried out in-house. Once they have experienced an external review, many smaller firms prefer and find it beneficial to have them every year rather than revert to in-house reviews.

### Root cause analysis

Root cause analysis (RCA) is a process for identifying the causes of problems or events to prevent them from recurring. Dealing with the symptom alone may address the immediate issue (eg, the review finding itself), but identifying and addressing the underlying or root cause is likely to be a far more effective way to reduce future recurrence and hence bring about lasting improvements. In simple terms, RCA involves asking a series of 'why' questions to drill down to identify the real root causes.

In the context of cold file review findings, RCA can be a valuable technique to prevent recurrence of the same issues (whether weaknesses or failings) year after year in monitoring or compliance reviews.

Effective RCA is a scaleable activity with processes and documentation tailored to a firm's specific circumstances. As such there is no one prescribed format or checklist. For example, for a sole practitioner with no staff, RCA may be a simple process with a small number of targeted 'why' questions identifying root causes directly linked to the review findings. In contrast, larger firms with several active RIs may require a more sophisticated approach to RCA.

As well as being a valuable process for firms to add into their cold file review processes, we are now asking firms to build in an element of RCA into their responses to our visit findings.

We require RCA for any findings we categorise as 'more significant'.

Firms can decide on the most suitable and proportionate approach, but we expect their framework to include:

- understanding the findings we have highlighted as more significant;
- holding discussions with individuals involved in the engagement; and
- reviewing relevant audit working papers.

Visit the supporting audit quality section of our website at [icaew.com/audit](https://www.icaew.com/audit) for further guidance.

# ICAEW *audit resources*

We email audit compliance principals and responsible individuals when a new issue of *Audit News* is published. *Audit News* is also available to all ICAEW members – please select the Audit and Assurance topic from your list of preferences and we will notify you by email when a new issue is available.

## Webinars and webcasts

For more information on the findings from our audit monitoring reviews, together with tips for avoiding pitfalls, see our insights from audit monitoring webcasts available at [icaew.com/auditguidance](https://www.icaew.com/auditguidance)

- Ethical standards
- Group audits
- Audit compliance review
- Accounting estimates, valuations, impairment and the use of experts
- Audit work on internal controls
- FRS102 implementation
- Internal controls
- Fraud
- Substantive testing – substantive analytical review and tests of detail.

These short webcasts were developed and presented by our reviewers who have first-hand experience of visiting firms of all sizes.

## Audit News

*Audit News* is your regulatory update containing the latest audit and assurance technical guidance and best practice advice. The current and past issues of *Audit News* are available at [icaew.com/auditnews](https://www.icaew.com/auditnews)

## Brexit

Find a range of resources to help prepare for Brexit including technical guidance at [icaew.com/brexit](https://www.icaew.com/brexit)

## UK GAAP

Access a wealth of information including free content at [icaew.com/ukgaap](https://www.icaew.com/ukgaap)

## ICAEW films

ICAEW's corporate training films provide an impactful and interactive way for audit firms to develop the whole audit team. The films explore numerous themes including the challenges audit teams face on a daily basis and the underestimated importance of professional scepticism. Find out more at [icaew.com/films](https://www.icaew.com/films)

## Technical and ethics advisory services

Our Technical Enquiries Service provides advice on a wide range of subjects, including accounting, anti-money laundering, ethics, company law, charities and auditing, but not taxation, which is dealt with through the ICAEW Tax and VAT helpline provided by Abbey Tax or TAXconnect.

Whatever your technical or ethical query, contact us via webchat for objective, confidential advice. Visit [icaew.com/helplines](https://www.icaew.com/helplines) for information on how to contact us.

## Helpsheets

In addition to advice provided through the helplines, common topics are addressed in a series of helpsheets written by our technical advisers. Visit [icaew.com/helpsheets](https://www.icaew.com/helpsheets) to access these resources.



### Financial Reporting Faculty

The Financial Reporting Faculty (FRF) provides highly accessible and practical assistance on financial reporting issues to keep you informed. Members of FRF have full access to practical online guidance, career advancing webinars and events, exclusive use of our online factsheets, monthly ebulletins, the benefit of our bespoke accounting standards pages and bi-annual journal, *By All Accounts*. Faculty members also receive unlimited access to the IASB's eIFRS service (normally £295pa). You can download the FRF app or follow us on Twitter [@ICAEW\\_FRF](#).

### Audit and Assurance Faculty

The Audit and Assurance Faculty is the professional and public interest voice of audit and assurance matters for ICAEW and a leading authority in its field. Internationally recognised as a source of expertise, the faculty influences regulation and standard setting and provides a range of resources to professionals. It also offers practical assistance in dealing with common audit and assurance problems. Subscribers benefit from a monthly bulletin summarising faculty resources, access to the faculty's extensive webinar programme and 10 editions of the faculty's magazine, *Audit & Beyond*. Subscribers are also invited to exclusive faculty conferences and events. The faculty's current areas of focus include audit reform, risk assessment and support on Brexit, the impact of coronavirus, as well as developments in smaller and less complex entity audits and quality control. Join now at [icaew.com/joinAAF](https://www.icaew.com/joinAAF)

### About the ICAEW Regulatory Board (IRB)

The role of the IRB is to initiate and develop strategic priorities pertaining to professional standards regulation such as keeping changes to regulations and bye laws under review and setting regulatory fees. It is not involved with the discipline of ICAEW members or those authorised by ICAEW to undertake regulated activities.

The IRB has regard to the objectives of the profession, as set out in ICAEW's Royal Charter. The interests of the public are at the forefront of everything it does. To support this, IRB members are expected to act with independence and avoid conflicts of interest.

The IRB ensures the ICAEW Professional Standards Department runs the processes that underpin licensing and disciplinary work effectively and efficiently.

The IRB has 12 members including the chair and is formed of an equal number of lay members (someone who is not and never has been a member, affiliate or employee of ICAEW or any other accountancy body) and non lay members (ICAEW Chartered Accountants).

The current IRB chair is a lay member, Michael Caplan QC. An alternate chair, Steve Barrow, leads the meetings when legal services matters are discussed.

The chair and IRB members are all appointed using an independent selection process.

## Our role as a world-leading improvement regulator

We protect the public interest by making sure ICAEW's firms, members, students and affiliates maintain the highest standards of professional competency and conduct.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the independent ICAEW Regulatory Board (IRB).

Our role is to:

- **authorise** ICAEW firms, members and affiliates to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- **investigate** complaints and hold ICAEW firms and members to account where they fall short of standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

---

There are more than 1.8m chartered accountants and students around the world and 186,500 of them are members and students of ICAEW. They are talented, ethical and committed professionals, which is why all of the top 100 Global Brands employ chartered accountants.\*

ICAEW promotes inclusivity, diversity and fairness. We attract talented individuals into the profession and give them the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

Founded in 1880, we have a long history of serving the public interest and we continue to work with governments, regulators and business leaders around the world. And, as an improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

ICAEW is proud to be part of Chartered Accountants Worldwide, a global network of 750,000 members across 190 countries, which promotes the expertise and skills of chartered accountants on a global basis.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

[www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)  
[www.globalaccountingalliance.com](http://www.globalaccountingalliance.com)

### ICAEW

Metropolitan House  
321 Avebury Boulevard  
Milton Keynes MK9 2FZ  
UK

T +44 (0)1908 248 250

E [contactus@icaew.com](mailto:contactus@icaew.com)

[icaew.com/auditguidance](http://icaew.com/auditguidance)



\* Source: CAW, 2020 - Interbrand, Best Global Brands 2019