

## Case Study – Regulatory Assessor

*Please read and consider the attached report. Please also respond to the queries at the end of this document.*

### UNSATISFACTORY OUTCOME TO AN AUDIT MONITORING REVIEW (THIRD REVIEW)

<b>Audit qualified principal(s)</b>	<b>Firm</b>	<b>Pages</b>
Mr Andy Smith FCCA	Smiths & Co	1 - 4+

This report, including correspondence, concerns the above principal and his firm's conduct of audit work and continuing audit registration.

Taking account of the content of this report and the Regulatory Board's Policy Statement and Regulatory Guidance the Assessor is **invited to consider** making an appropriate decision in this case.

## **1. INTRODUCTION**

- 1.1 Smiths & Co is the sole practice of ACCA member, Andy Smith FCCA. The purpose of this third monitoring review was to follow up the firm's previous monitoring review, which was completed on 27 January 2022. References to a Practising Regulation (PR) are to the regulations in Annex 2 to the Chartered Certified Accountants' Global Practising Regulations 2003 (GPRs).
- 1.2 The firm has held nine audit appointments in the last twenty-four months. Three audit client files were inspected.

## **2. SUMMARY OF EVENTS**

### **History of monitoring reviews**

- 2.1 The firm's first monitoring review was carried out on 27 June 2017. Two of the three audit files inspected were found to be of a satisfactory standard, resulting in an overall satisfactory outcome. There were significant deficiencies in audit work on one file which had resulted in audit opinion not being adequately supported by the work performed and recorded. The deficiencies found on all three files were reported to the firm on 30 July 2017. The firm provided an action plan on 30 August 2017.
- 2.2 The second review was carried out between 14 December 2021 and 17 January 2022. The compliance officer informed the firm that although the overall outcome of the review was satisfactory, there were still serious deficiencies in audit work which had resulted in audit opinion not being adequately supported by the work performed and recorded on one of the three audit files inspected. The report on the review set out all deficiencies and this report was sent to the firm on 20 January 2022. The firm was also warned that failure to improve the standard of its audit work may jeopardise the firm's continuing audit registration.

The firm provided a detailed plan describing the action that it was taking on 9 August 2022. The compliance officer asked for further clarification regarding firm's audit procedures on 13 August 2022, which was provided on 27 August 2022. The firm's action plan included engaging an external training organisation to assist in improving its audit work and carrying out 'cold' reviews. The action plan was considered reasonable by the compliance officer and no further action was taken.

### **Summary of findings of current review**

- 2.3 During the third review, which was carried out remotely between 8 June and 23 June 2024, the compliance officer found that the firm's audit procedures had deteriorated. The firm had not implemented the action plan provided following the previous review. It was using an out-of-date audit programme on all audits which had not been tailored to ensure that it met the needs of the audit of each client. In some sections on the files, it was not clear what audit evidence the firm had obtained. As a result, on two

of the three audit files examined the audit opinion was not adequately supported by the work performed and recorded.

### **International Standard on Quality Management (UK) 1**

- 2.4 Although the firm had a documented system of quality control policies and, these had not been entirely effective, particularly in the areas of engagement performance and monitoring, in ensuring that the firm performed its audit work in accordance with ISAs and that reports issued by the firm are appropriate in the circumstances, as reflected in the outcome of the file inspections reported in the appendix of detailed findings.

#### **Detailed findings on audit work**

- 2.5 Details of the audit files examined, and the deficiencies found, are shown in the attached appendix. The descriptions “satisfactory” and “unsatisfactory” are based on the evidence seen on the files at the review and is an assessment of whether or not the audit opinion was supported on each file inspected. The deficiencies highlighted in the appendix were discussed in detail with Mr Smith on 23 June 2022.

### **3. APPARENT BREACHES OF THE GLOBAL PRACTISING REGULATIONS**

- 3.1 Mr Smith and the firm have breached PR 13(1) in that they failed to comply with the International Standards on Auditing (Ireland) in the conduct of audit work. There were deficiencies in the planning, control and recording of audit work, and in two of the three cases examined the audit opinions were not adequately supported by the work performed and recorded.

### **4. REGULATORY POWERS AND RECOMMENDED ACTION**

- 4.1 The Assessor’s attention is drawn to the relevant provisions of the Authorisation Regulations (ARs), which set out the Assessor’s powers in a case such as this.
- 4.2 AR 7(2) provides that the Assessor may, if in their absolute discretion they think fit, impose conditions upon a certificate on eight different grounds. One of these eight grounds, AR 7(2)(f), appears to be relevant in this case. It provides that the Assessor may impose conditions if:
- “the Association is notified or becomes aware that a holder of a certificate or any of their or its partners, members, directors or controllers has committed a material breach of any of these regulations or any other rules and regulations or codes of practice to which they are subject (or were subject prior to 1 January 2014) in the carrying on of the activities to which the certificate relates or authorises;”
- 4.3 AR 7(2) further provides that, in determining whether to exercise their powers under AR 7(2), the Assessor shall have regard to such matters as they consider relevant.

#### **Summary of facts**

- 4.4 ACCA regards the following as the relevant facts in this case:
- i the firm and its audit principal have had three monitoring reviews
  - ii the first two reviews had an overall satisfactory outcome although significant deficiencies were found in the audit work on one file at both reviews
  - iii the audit work had deteriorated at the third review and significant deficiencies were found in the audit work on two of the three files inspected
  - iv the firm provided an action plan following both reviews but had failed to fully implement it
  - v the firm has failed to achieve a satisfactory outcome despite the advice and warning given at the previous review.

#### **ACCA's recommendation and the Assessor's decision**

- 4.5 In the light of the facts above ACCA recommends that the Assessor imposes conditions on Mr Smith's practising certificate in line with the approach set out in PS10 of the Regulatory Board's Policy Statement and sections 7.2.4 to 7.2.5 of Regulatory Guidance for reviews with unsatisfactory outcomes where the audit principal has not previously been subject to a regulatory order or decision, whereby an early re-review at his firm's cost should take place within one year to 18 months of the previous monitoring review to assess the improvement in Mr Smith's work.
- 4.6 The Assessor should also note that ACCA has requested that the firm produce an 'action plan' to explain how it intends to improve the standard of its audit work, and this is contained within the attached appendix. The Assessor may wish to consider the adequacy of this plan and, if deemed inadequate, may wish to refer the matter to the Admissions and Licensing Committee to consider withdrawal of Mr Smith's and his firm's audit certificates.

#### **Publicity**

- 4.7 AR 7(6) indicates that conditions imposed by an Assessor relating to an existing certificate pursuant to AR 7(2) may be published as soon as practicable. Furthermore, AR 7(6) indicates that the certificate holder may be named in such publicity, unless the Assessor otherwise directs.
- 4.8 Taking account of the contents of this report and the Policy Statement & Regulatory Guidance, the Assessor is **invited to consider** making an appropriate decision in this case.

*Please respond to questions as set out on the application form.*