AUDIT PRACTICE REVIEW METHODOLOGY

1. PREAMBLE

Audit Practice reviews are a critical component of the Authority’s role of public interest protection through improving the standard and quality of auditing services provided by auditing firms. This is done through monitoring compliance with applicable laws, regulations, standards and codes in managing the firms and performance of audit engagements.

2. The Revised Methodology

2.1 As a general rule, for certified audit firms and certified auditors of PIEs, the Authority has adopted a developmental policy which requires that an audit firm or audit practitioner will be deregistered if they are re-reviewed:

   a) two times in a row, with no prospect of making minimal improvements to attain the required performance standards in the short-term; or

   b) at first or second review; where it is determined that the performance is so bad that continued practice of the firm or practitioner could seriously harm public interest or the interests of those who rely on the reports of the firm or practitioner.

2.2 The key to making an Audit Practice Review (APR) process effective is that it has to both identify the problem areas and propose an effective and efficient means of ensuring improvements are made.

2.3 One of the most effective ways to do this is to make the reporting and the follow-up action specific to the issues identified and proportionate to the firm’s (or individual’s) failings.

2.4 Key assessments to be made in an APR review should cover the firm’s commitment and ability to address the issues raised:

   a) In terms of commitment it should consider:

      i) the firm’s attitude;

      ii) the resources it has indicated it will employ to address the issues; and
iii) its responses to the findings (its action plan).

b) On ability, an assessment has to be made of:

i) the nature of the findings (confined to one area or pervasive, documentation issues or failure to obtain evidence);

ii) the level of understanding shown by the firm of the issues raised; and

iii) the internal resources it has available to put things right.

2.5 Where the standards in the whole firm are not up to the required standard, then it is only right that follow-up action should be directed at the whole firm. However, where the problems lie with an individual, the follow-up action needs to be directed at that individual.

2.6 Looking at the case where there are problems with an individual, the following are alternative options which can be tailored, depending on the severity of the problem:

a) APR report indicates a problem with an individual partner. Possible ways to address problems with an individual:

i) Impose a condition of cold file reviews (reviews done after the audit report has been signed) or hot file reviews (reviews done before the audit report has been signed) on all or a sample of the problem individual’s audit work;

ii) Depending on the severity of the findings, the Authority could impose a condition that the reviewer selected by the firm has to be acceptable to it;

iii) The results of these reviews should be submitted to the Authority for assessment;

iv) If the results of these reviews are unsatisfactory then the Authority could impose a follow-up visit focused on the issues raised in the initial visit;

v) Ensure that the individual is undertaking appropriate Continuing Professional Development (CPD) by obtaining his/her proposals for training for the next twelve months and following this up with details of the training
undertaken at the end of that period;

vi) Impose a condition that the individual could not take on any new audit appointments without the Authority’s approval; and

vii) The individual is also expected to provide the Authority with his/her remedial action plan.

b) APR report indicates a more general problem with the firm:

i) There are a number of conditions which the Authority could impose on a firm’s audit licence without imposing a full monitoring visit in the following year.

ii) Where there are more pervasive problems with a firm, there may be merit in having a follow-up visit. Judgment would have to be made on whether the findings were sufficiently serious to warrant a follow-up visit. The visit report on the initial visit should make this clear.

2.7 If a follow-up visit is considered necessary, for reasons stated above, it would make sense to have the follow-up 18 months after the original visit, so the firm has had time to act on the findings.

2.8 The follow-up visit could be more risk based in scope unless the standards at the firm are consistently low. Where possible this would mean:

a) Reviewing files to cover only poorly performing individuals;

b) Reviewing files which are higher risk;

c) Reviewing no more than one file per individual unless there was good reason to increase the sample;

d) Focusing file reviews on the key areas where problems had been identified on the original visit; and

e) Reviewing whole-firm procedures where serious problems had been identified at the original visit.
3. Revised Rating System

3.1 Firm Review

a) Audit firm reviews are directed towards the environment in which engagements reviews are carried out although engagement review forms part of this review. The firm review consists of an examination for the following six ISQC 1 elements:

i) Leadership responsibilities for quality within the firm;

ii) Ethical requirements;

iii) Acceptance and continuance of client relations and specific engagements;

iv) Human resources;

v) Engagement performance; and

vi) Monitoring.

b) The aim of the examination is to ensure that the system conforms in all material respects to the requirement of ISQC 1.

c) The quality control policies and procedures should be documented and communicated to the firm’s personnel. Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognises the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.

d) The firm review would not necessarily be dependent on the individual’s engagement review outcome. The outcome of the ISQC 1 would be determined excluding the engagement review.

e) The Revised Rating is therefore as follows:
3.2 Engagement Review

An audit engagement review (file review) is designed to provide the reviewer with reasonable assurance that audit engagement partners in a certified audit firm comply with applicable Assurance Standards, International Financial Reporting Standards (IFRS), Codes of Ethics, and applicable legislation and that the audit reports issued are appropriate. This entails examination of a reasonable cross section of the audit firm’s public interest engagements, with a focus on higher risk engagements; and ensuring that all Certified Auditors of PIE’s in the firm are reviewed. Engagement reviews can be regarded as a strong and reliable indicator of the effectiveness and efficacy of the firm’s quality control system. The Revised Rating is therefore as follows:

<table>
<thead>
<tr>
<th>Type of Finding</th>
<th>Risk</th>
<th>Overall Rating Consequence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minor non-compliance</td>
<td>Low</td>
<td>Review in the next cycle.</td>
</tr>
<tr>
<td>Significant issues of non-compliance</td>
<td>Medium</td>
<td>Re-review</td>
</tr>
<tr>
<td>Fundamental none or inadequate compliance</td>
<td>High</td>
<td>Re-review and refer to Enforcement</td>
</tr>
</tbody>
</table>

### Type of Finding

**Documented non-compliance with standards, codes, legislation, or policies and procedures but risk of inappropriate audit opinion is unlikely.**

- **Risk:** Low
- **Overall Rating Consequence:** Low risk. Review in the next cycle.

**Significant issues of non-compliance, and appropriateness of audit opinion unknown.**

- **Risk:** Medium
- **Overall Rating Consequence:** Review in the next cycle if the weighted rating is Low risk to Medium risk
  OR
  Re-review and / or refer to Enforcement if the weighted rating is Medium risk to High risk.

**Significant issues of non-compliance or fundamental none or inadequate documentation and risk of inappropriate audit opinion is very likely or has probably been expressed.**

- **Risk:** High
- **Overall Rating Consequence:** High risk to Very High risk. Refer to Enforcement for final decision (re-review or immediate strike off).

### 4. Appeal for Reconsideration Based on New Evidence

If new information has become available which was not there at the time of the review that resulted in the Committee making a decision without sufficient documented evidence, the aggrieved firm or engagement partner may make
a written appeal to the Director of Technical Department within six weeks (forty-two (42) calendar days) from the date of notification of the Committee results. If sufficient evidence-based documentation is made available which warrants a reconsideration of the previous decision of the APRC, the request may be presented to the next meeting of the APRC. The new information should have existed at the time of the audit practice review and the time the audit opinion was made.

5. Remedial Action

Remedial action, a process whereby firms and practitioners that failed their inspections shall be requested to submit, together with their written undertaking, a root cause analysis and action plan to address significant audit quality issues reported to them. These plans can be highly effective and can yield the necessary improvements needed if the firms and practitioners buy into the remediation process through the development and implementation of appropriate prospective remedial plans. This process ensures that audit firms satisfactorily address inspection findings that were reported to them by the regulator which will in turn promote high audit quality.

6. Reporting

6.1 Report for Practitioner Comments (RPC)

a) A preliminary findings report is issued to the firm/engagement partner and discussed, followed by an opportunity to provide succinct and complete written comments (which must, as far as possible, be supported by documented evidence) to be submitted separately on the firm’s letterhead within the prescribed timeframe. The comment letter must be numbered exactly in the same way as the APRC findings and must be signed by the relevant engagement partner and the firm’s appointed quality control representative (or equivalent).

b) The firm/engagement partner’s comment letter will be attached to the formal review report.

c) The RPC is subjected to the Authority’s internal quality control process and is subject to change or, in some cases, additional findings may be raised later in the process in which case that will be duly communicated.
6.2 Formal Review Report

a) The final formal review report – including APRC’s decision on any required action/conditions, the review scope, any firm level findings, any engagement level findings, with the firm/engagement partner’s written comment letters attached – will be formally reported to the firm leadership by the CEO. Since firm leadership is ultimately responsible to ensure consistent, sustainable high-quality audits and remediation of deficiencies at their firms, all review reports will be directed to the firm’s managing partner (or equivalent). The firm/engagement partner is expected to study the report and address any required action/conditions as soon as possible and, where required, start the process to identify the root causes and implement remedial/corrective action on all subsequent audits and then monitor this. The report is written with the users in mind, and these may include the firm leadership, engagement partner/team, APRC and other relevant users such as audit committees or other regulators.

b) Since quality control and remediation is an ongoing process of the firm, a firm/engagement partner may receive multiple reviews at different times during a cycle; and separate formal review reports will be issued to the firm/engagement partner after every visit and these will supersede or supplement any reports previously issued, and they, in turn, can also be superseded as a result of subsequent reviews. Any issued report to the firm/engagement partner will clearly spell out the scope, assurance engagement/s, disclaimer, findings, responses and decisions by APRC.

6.3 Special Paragraphs

APRC, from time to time, deems it necessary to focus a firm/engagement partner’s attention to specific matters that are not necessarily reported as a finding in the formal inspection report. These specific messages are communicated with the formal report in the form of special paragraphs. These specific messages do not constitute additional reportable inspection findings but are rather other matters or general observations that APRC deems important to bring to the firm’s attention. Reportable findings (if any) are reported in the formal report that forms the basis of APRC’s decision on any required action/condition; and any special paragraphs stated in the formal report should not be regarded as additional findings. Special messages to the firm/engagement partner will, however, be considered in subsequent reviews.
and might lead to findings, if not appropriately addressed.

6.4 Summary of Audit Practice Review Findings

Annually, the Authority issues a public review report that provides an analysis of key findings arising from reviews performed during a particular year. These reports are available on the BAOA website and auditors are encouraged to proactively identify and address the reported deficiencies that might exist in their respective firms. The reports are based on the IFIAR guidelines on review themes.

7. Conclusion

7.1 The previous APR system, appeared to be one of detail, having a limited focus on risk as it covered every individual who signs audit reports at each visit to the firm. Once the Authority has gained some satisfaction that standards are improving, it would appear appropriate to move on to a more risk-based approach to monitoring – providing an incentive for firms to get it right.

7.2 In terms of follow-up by the Authority to an adverse report on a firm, the APR process would recognise the nature and extent of the failings in the firm. This could involve adopting a more risk-based approach to making sure the firm is making the appropriate improvements as detailed above.

7.3 This methodology is aligned to best international practice for similar sized Regulators and requires the use of judgement with respect to the course of action taken and the use of points rating is minimised.

8. Effective Date

The effective date for this Methodology is for audit practice reviews commencing on or after 01 September 2019.
APPENDIX

BRIEFING NOTES

1. INTRODUCTION

1.1 The Botswana Accountancy Oversight Authority (the Authority) is one of only fifty-three internationally recognized Independent Audit Regulators in the world and the fourth in Africa along with Egypt, Mauritius and South Africa. The Authority was established through the Financial Reporting Act, 2010, (the Act) as the independent oversight body of the accounting and auditing profession. The principal objectives of the Authority are; to provide oversight to the accounting and auditing services and promote the standard, quality and credibility of providing financial and non-financial information by entities, including public interest entities (PIEs). The detailed objectives of the Authority are set out in Section 5 of the Act.

1.2 Audit Practice Reviews were introduced in Botswana in 1997 under the then Botswana Institute of Accountants (BIA). Once every five years, each auditor in Botswana was subjected to a practice review. The second five-year cycle of practice reviews was completed in 2007 and they were performed by the Independent Regulatory Board of Auditors (IRBA) on behalf of BIA. From 2007, Botswana changed to a three-year cycle and the first three-year cycle commenced in the second half of 2007, and they were performed by the ACCA Audit Monitoring Department on behalf of BIA. After the enactment of the Accountants Act 2010, and the establishment of the Botswana Institute of Chartered Accountants (BICA), the reviews by ACCA continued until 2015 when the Authority took over the function under a special arrangement captured in a Memorandum of Understanding signed by the two entities.

2. RESPONSIBILITY FOR AUDIT PRACTICE REVIEWS

The responsibility for the conduct of audit practice reviews in Botswana currently lies with the Board of the Authority through its Sub Committee, the Audit Practice Review Committee (APRC). The purpose of the APRC as covered by the Act, its Regulations and Rules is to:

a) uphold the highest standards of professionalism in the audit profession by ensuring compliance with International Financial Reporting Standards
(IFRSs), International Standards on Auditing (ISAs), International Standards on Quality Control 1 (ISQC 1), Code of Ethics for Professional Accountants (IESBA), relevant pronouncements, and local legislation. The audit practice review entails, amongst others, the adoption of a stringent audit certification process for certified auditors as well as robust audit independence programs:

b) review local standards of auditing in the country with a view to aligning them to international best practice, and to make recommendations to the Board of the Authority on any possible changes to the regulatory regime requiring parliamentary approval;

c) promote the reliability and credibility of financial statements and enhance the reputation of auditors in the eyes of stakeholders, the public and the business community at large; and

d) assist in the adherence to the highest standards of performing audit and related services by auditors.

3. MEMORANDUM OF UNDERSTANDING (MoU)

The Authority first signed an MoU with the BICA on 4th September 2014, wherein it was agreed that the Authority would conduct the audit practice reviews of certified auditors and audit firms of non-PIEs on behalf of BICA. The results of the reviews are sent to BICA for a final consideration by the BICA Council before releasing the results to their Practitioners.

4. RESPONSIBILITIES OF THE AUTHORITY’S APRC:

The responsibilities of the APRC include:

4.1 Oversee the strategic policy decisions covering:

The criteria for determining the categorization of certified auditors and audit firms into those relating to PIEs and non-PIEs;

4.2 Monitoring the overall review process covering:

a) Determining the length of the review cycles and monitoring thereof;

b) Ensuring that the review reports and recommendations are consistent, and appropriate;
c) Reviewing and recommending to the Board the results of the review findings; and

d) Providing appropriate interventions to problems and difficulties encountered during the reviews.