Botswana Accountancy Oversight Authority

SUMMARY OF AUDIT PRACTICE REVIEWS

FOR THE YEAR ENDED 31 DECEMBER 2017

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Foreword from Board Chairperson

Botswana Accountancy Oversight Authority (BAOA) is responsible for provision of oversight to accounting and auditing services and promotion of the standard, quality and credibility of providing financial and non-financial information by entities, including Public Interest Entities (PIEs), through standard setting, financial reporting monitoring, audit practice reviews, corporate governance reviews, enforcement of compliance and oversight over Professional Accounting Organisations; and education and training of professional accountants in Botswana.

On behalf of the Audit Practice Review Committee and the Board of the Authority, I have the pleasure of presenting the Audit Practice Review Committee summarized report on audit practice reviews for the year ending 31 December 2017 as well as the audit practice reviews for the first cycle. The Authority adopted a three-year audit practice review cycle, and the first cycle was completed on the 31 December 2017.

The Authority believes that this report will serve as a valuable tool for audit firms of all sizes in developing, enhancing, and evolving their audit practices and contributing to their own processes of continuous improvement; and thereby further demonstrating their ongoing commitment to enhancing audit quality.

The Botswana Accountancy Oversight Authority does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

Board Chairperson

July 2018

SUMMARISED AUDIT PRACTICE REVIEW REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

AUDIT PRACTICE REVIEWS

INTRODUTION

One of the major mandates of the Authority is to undertake audit practice reviews of Certified Audit Firms and their attest partners or practitioners.

Audit practice reviews consist of a firm (quality control) review and a review of selected assurance engagements carried out by each firm's attest (assurance) engagement partners (interchangeably referred to as practitioners).

A firm review consists of an examination of the six (6) elements of a firm's system of Quality Control Policies and Procedures, namely: Leadership Responsibilities; Independence & Ethical Requirements; Client Acceptance & Continuance; Human Resources; Engagement Performance; and Monitoring. The aim of the examination is to ensure that the system conforms in all material respects to the requirements of the International Standard on Quality Control 1 (ISQC 1).

An engagement review aims to obtain reasonable assurance that audit engagement partners in a Certified Audit Firm comply with the applicable Assurance Standards; International Financial Reporting Standards; Code of Ethics; and applicable Laws and Regulations, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

In terms of its audit practice review mandate, the Authority is responsible for Certified Audit Firms and Certified Auditors of Public Interest Entities. However, the Authority has entered into a Memorandum of Understanding with Botswana Institute of Chartered Accountants (BICA), which requires that the Authority undertakes audit practice reviews of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities until such a time that the legislation is changed to give the Authority the responsibility to undertake inspections of all Certified Audit Firms and Certified Auditors in Botswana.

The Authority has adopted a three-year inspection cycle, which requires that all Certified Audit Firms and their practitioners be reviewed within the three-year cycle period. The Authority completed its first audit practice review cycle on the 31 December 2017. During this cycle, a total of twenty-eight Certified Audit Firms and their Certified Auditors were reviewed; as follows:

Year	Audit firms reviewed
2015	8
2016	8
2017	12 (including one re-review)

This report discusses in detail hereunder the results of the reviews for the year 2017; and for the first cycle (2015 to 2017) in summary.

PROCESS OF APPROVAL OF AUDIT PRACTICE REVIEW REPORTS

After carrying out an audit practice review, the Technical Department prepares and submits audit practice review reports to the Audit Practice Review Committee (APRC), a subcommittee of the Authority's Board, for their consideration.

Final results of audit practice reviews are determined in terms of predetermined criteria applicable to the audit practice review cycle. The APRC's final decision would be one of the following:

- Satisfactory, meaning the next audit practice review will be carried out in the next cycle;
- Unsatisfactory, meaning some matters still require attention before a satisfactory result can be achieved and a follow-up audit practice review will be scheduled; or
- Referral to the Enforcement Committee, which could then attract possible sanctions by the Committee.

Audit practice review reports for Certified Audit Firms and Certified Auditors of Public Interest Entities will be examined by the APRC, who will then recommend a course of action to the Authority's Board.

In respect of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities, the APRC will examine audit practice review reports prepared by the Technical Department and recommend a course of action to BICA, through the Authority's Board. BICA will then make the final decision and inform their members accordingly.

With regard to Certified Audit Firms and Certified Auditors of Public Interest Entities, the Authority has adopted a developmental policy which requires that an audit firm or audit practitioner will be deregistered if their performance in an audit practice review is unsatisfactory:

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

In respect of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities, BICA has adopted a three-strike rule which requires that an audit firm or audit practitioner be deregistered if their performance in an audit practice review is unsatisfactory three times in a row.

AUDIT PRACTICE REVIEWS UNDERTAKEN IN 2017

Overview of Audit Practice Reviews

Twelve (12) Certified Audit Firms with a total of nineteen (19) Certified Auditors were reviewed during 2017. Five (5) of these, with a total of twelve (12) practitioners were Certified Audit Firms of Public Interest Entities, and seven (7) with a total of seven (7) practitioners were Certified Audit Firms of Non-Public Interest Entities.

The Authority has for the past three years been participating in the International Forum of Independent Audit Regulators (IFIAR) Survey of Inspection Findings in which member countries were required, among others, to classify findings into audit practice review/Inspection themes provided by the IFIAR. All findings arising from both the firm and engagement reviews were classified into the IFIAR Inspection Themes.

Detailed analysis of the Firm Reviews and Engagement Reviews findings are provided in the following paragraphs.

Firm Reviews

All the key elements of each firm's system of Quality Control Policies and Procedures were reviewed on a sample basis and were then compared to the standard requirements of the International Standard on Quality Control 1 (ISQC 1).

All deviations from the requirements of ISQC 1 were noted as "findings" and were allocated to their respective ISQC 1 element.

Provided in Table A below are the findings for 2017 and for the first cycle; allocated to each ISQC 1 element (IFIAR Theme), and split between Certified Audit Firms of Public Interest Entities and Audit Firms of Non-Public Interest Entities:

Table A: Firm Review Findings allocated to the ISQC 1 Elements of System of Quality Control (IFIAR "Inspection Themes")

	2017 FINDINGS					
	CERTIFIED AUDIT FIRMS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDIT FIRMS OF NON - PUBLIC INTEREST ENTITIES		ALL CERTIFIED AUDIT FIRMS	
ELEMENTS OF THE SYSTEM OF QUALITY CONTROL (IFIAR Inspection Theme)	**Number of findings**	**Number of findings as a % of total findings for all firms**	**Number of findings**	**Number of findings as a % of total findings for all firms**	**Total findings**	**Total findings as a % of total findings for all firms**
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	2	2	8	8	**10**	**9**
Independence and Ethical Requirements	5	5	12	11	**17**	**16**
Client Risk Assessment, Acceptance and Continuance	0	0	0	0	**0**	**0**
Human Resources	12	11	24	22	**36**	**34**
Engagement Performance	10	9	21	20	**31**	**29**
Monitoring	5	5	8	7	**13**	**12**
Total Findings	**34**	**32**	**73**	**68**	**107***	**100**
Number of Audit Firms	**5**		**7**		**12**	
Average Findings Per Audit Firm	**7**		**10**		**9**	

	FIRST CYCLE FINDINGS (2015 to 2017)					
	CERTIFIED AUDIT FIRMS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDIT FIRMS OF NON - PUBLIC INTEREST ENTITIES		ALL CERTIFIED AUDIT FIRMS	
ELEMENTS OF THE SYSTEM OF QUALITY CONTROL (IFIAR Inspection Theme)	**Number of findings**	**Number of findings as a % of total findings for all firms**	**Number of findings**	**Number of findings as a % of total findings for all firms**	**Total findings**	**Total findings as a % of total findings for all firms**
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	5	3	12	7	**17**	**10**
Independence and Ethical Requirements	8	5	22	12	**30**	**17**
Client Risk Assessment, Acceptance and Continuance	0	0	2	1	**2**	**1**
Human Resources	17	9	37	21	**54**	**30**
Engagement Performance	14	8	37	20	**51**	**28**
Monitoring	6	3	19	11	**25**	**14**
Total Findings	**50**	**28**	**129**	**72**	**179***	**100**
Number of Audit Firms	**10**		**18**		**28**	
Average Findings Per Audit Firm	**5**		**7**		**6**	

Note: "*" Total findings for all firms

The twelve (12) Certified Audit Firms reviewed in 2017 recorded average findings per firm of nine (9). Over the first cycle twenty-eight (28) Certified Audit Firms recorded average findings per firm of six (6).

The average number of findings for five (5) Certified Audit Firms of Public Interest Entities reviewed in 2017 was seven (7). Over the first cycle, the average number of findings for the ten (10) Certified Audit Firms of Public Interest Entities reviewed was five (5).

With regard to Certified Audit Firms of Non-Public Interest Entities, the performance of the seven (7) firms reviewed in 2017 recorded an average number of findings of ten (10); while over the first cycle, the eighteen (18) firms recorded an average number of findings of seven (7).

The findings as summarised at Table A above, split by Elements of the System of Quality Control (IFIAR Inspection Themes) are further analysed below, by each theme's contribution to the total findings:

a) *Human Resources Theme Contribution to Total findings: 34% in 2017 and 30% in the first cycle*

The Human Resources theme made the largest contribution to the total findings (34%) in 2017 and 30% in the first cycle. Certified Audit Firms of Non-Public Interest Entities accounted for 21% of the findings, while Certified Audit Firms of Public Interest Entities accounted for the remainder of 9% during the first cycle.

Some of the deficiencies noted included the following:

i) There were no documentations in place of procedures that are carried out to ensure that staff developmental needs identified in the staffs' performance appraisals are addressed and monitored.

ii) Firms were unable to provide us with programs for orientating new staff. Further, there were no documented evidence that employees recruited during the year had attended any orientation programme upon being hired.

iii) Some firms did not have a defined criterion for assessing the suitability of applicants during the hiring process, i.e. there was no formal template that is used by the firms to carry out interviews or to assess the suitability of applicants.

iv) Employment Contracts for employees in various firms were considered Insufficient as they did not cover the following:

- that employees are expected to adhere to the firm's policies and procedures as per the requirements of ISQC1;

- that results of internal quality monitoring reviews for engagements on which they worked are considered when carrying out performance evaluations;
- reference to professional behaviour and integrity; and
- documented evidence in the employees file that positive recognition is given for compliance with the firm's quality control policies and procedures.

v) Some firms did not have documented policies and procedures on the criteria used for determining admission of new partners to partnership.

vi) Staffs' understanding of the firms' human resources policies and procedures around the following areas was found to be inadequate:

- factors that determine compensation & advancement and the criteria that the firm applies in actual practice in determining compensation & advancement;
- how their development needs are met;
- how frequently and timeously, informal & formal performance evaluations occur and how well the evaluator is prepared for their performance appraisal; and
- the quality of constructive criticism flowing from the performance evaluation and the impact of their performance evaluations during the past year on promotion, compensation and assignments given.

b) *Engagement Performance Theme's contribution to total findings: 29% in 2017 and 28% in the first cycle*

The Engagement Performance theme accounted for the second highest contribution to total findings; 29% in 2017 and 28% for the first cycle. Certified Audit Firms of Non-Public Interest Entities contributed 20% of the findings compared to 8% contributed by Certified Audit Firms of Public Interest Entities during the first cycle.

Common findings in this theme included the following:

i) Firms policies and procedures on the area of engagement quality control reviews were either not documented on the Quality Control Manuals or were considered to be insufficient.

ii) Some firms' record retention periods were not in line with ISQC 1 and the legal requirements.

iii) There were no documented policies and procedures in the firm's Quality Control Manual guiding the firms on the destruction of old audit files.

iv) Firms were unable to provide us with lists of archived files and assurance that client documentation had been archived and securely stored for future reference.

v) Procedures for ensuring that audit engagement files are backed up within 60 days of signing an audit report were not operating effectively as evidenced by firms being unable to provide us with the latest backup lists. In other firms, there were no systematic or documented procedure in place to verify/support that backups of electronic documentation, in particular engagement files, had been successfully done.

vi) Some firms did not have documented policies in place for dealing with subpoenaed files, including procedures to ensure that the need for integrity of files is addressed and that no changes are permitted to be made to them after they have been subpoenaed.

c) *Independence & Ethical Requirements Theme's contribution to total findings:* 16% in 2017; and 17% for the first cycle*:*

The Independence & Ethical Requirement element contributed 16% to the findings in 2017, and 17% this first cycle. Of the17%, 12% were attributed to Certified Audit Firms of Non - Public Interest Entities; and the balance of 5% to Certified Audit Firms of Public Interest Entities.

Common findings in this theme included the following:

i) There were no documented policies and procedures in the Quality Control Manual guiding the firm in the identification and evaluation of incidences of money laundering; and prohibition of the audit team members from making or assuming responsibility for management decisions for audit clients.

ii) Firms that provided non-audit services to audit clients, i.e. preparation of financial statements and tax computations did not document how they managed the independence threat that arises from preparing and auditing the same financial statements.

d) Monitoring *Theme's contribution to total findings:* 12% in 2017; and 14% for the first cycle

The Monitoring theme contributed 12% of the findings in 2017, and 14% for the first cycle. Of the theme's 14%, Certified Audit Firms of Non-Public Interest Entities accounted for 11%, while Certified Audit Firms of Public Interest Entities contributed the balance of 3%.

Common findings in this theme included the following:

i) The processes of implementing quality control policies and procedures were incomplete, as there were either no conclusions on the internal quality control reviews undertaken; or the reviews did not cover the review of the firms' system of quality control on a cyclical basis as required by ISQC 1. It was further noted that some firms had not carried out the Quality Control Reviews at all, on a cyclical basis as required by ISQC 1.

ii) Some firms did not have policies and procedures addressing the following areas:

- documentation of the monitoring process;
- evaluation of the effect of deficiencies noted as a result of the monitoring process;
- making recommendations for appropriate remedial actions for deficiencies noted;
- communication to relevant engagement partners and other appropriate personnel, deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action
- cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement; and
- information communicated shall include a description of the monitoring procedures performed, the conclusions drawn from the monitoring procedures and, where relevant, a description of systemic, repetitive or other significant deficiencies and the actions taken to resolve or amend those deficiencies.

Engagement Reviews

During 2017, a total of thirty-eight (38) engagement files under the responsibility of nineteen (19) practitioners across twelve (12) Certified Audit Firms were carried out. During the first cycle a total of eighty-six (86) engagements under the responsibility of forty-five (45) practitioners across twenty-eight (28) Certified Audit Firms were undertaken.

The results of the review of practitioners and the total number of findings, split between Certified Auditors of Public Interest Entities and Certified Auditors of Non-Public Interest Entities are provided in Table B below:

Table B: Summary of Firm and Engagement Review Results for Certified Auditors of Public Interest Entities and Certified Auditors of Non-Public Interest Entities

DESCRIPTION	2017			FIRST CYCLE (2015 to 2017)		
	AUDITORS OF PUBLIC INTEREST ENTITIES	AUDITORS OF NON - PUBLIC INTEREST ENTITIES	TOTAL	AUDITORS OF PUBLIC INTEREST ENTITIES	AUDITORS OF NON - PUBLIC INTEREST ENTITIES	TOTAL
NUMBER OF FIRMS	**5**	**7**	**12**	**10**	**18**	**28**
Total Number of Partners	12	7	19	32	20	**52**
Total Number of Attest Partners Reviewed	12	7	19	27	18	**45**
Total Number of Attest Clients	414	217	631	1,358	387	**1,745**
Total Number of Attest (Assurance) Engagements Reviewed	24	14	38	52	34	**86**
Total Number of Findings	143	213	356	221	490	**711**
Findings per Attest Partner(average)	12	30	19	8	27	**16**
Attest Partner Rating:						
1. Satisfactory	9	2	11	23	4	**27**
2. Satisfactory, with deficiencies	0	0	0	1	2	**3**
3. Unsatisfactory	3	5	8	3	12	**15**
Total Attest Partners	**12**	**7**	**19**	**27**	**18**	**45**
Firm Rating:						
1. Satisfactory	**2**	**2**	**4**	**7**	**6**	**13**
2. Unsatisfactory	**3**	**5**	**8**	**3**	**12**	**15**
Total Firms	**5**	**7**	**12**	**10**	**18**	**28**

As will be noted from Table B above, of the total nineteen (19) Certified Auditors reviewed in 2017; the performances of nine (9) Certified Auditors of Public Interest Entities and two (2) Certified Auditors of Non-Public Interest Entities were "Satisfactory" while the performances of three (3) Certified Auditors of Public Interest Entities and five (5) Certified Auditors of Non-Public Interest Entities were "Unsatisfactory". Over the first cycle, of the forty-five (45) Certified Auditors reviewed; thirty (30) [24 being Certified Auditors of Public Interest Entities and 6 being Certified Auditors of Non-Public Interest Entities] were rated "Satisfactory" while the remaining fifteen (15) [12 being Certified Auditors of Non-Public Interest Entities and 3 being Certified Auditors of Public Interest Entities] were rated "Unsatisfactory".

Engagement Review Results: Analysis by Audit Area (IFIAR Inspection Theme Findings)

All deviations from the requirements of: applicable Assurance Standards; International Financial Reporting Standards; Code of Ethics; and applicable laws and regulations were noted as "findings".

Each engagement finding was allocated to one of the seventeen (17) Audit Inspection Themes (audit areas) provided by the IFIAR for the 2017 Survey. These were in turn split between Certified Auditors of Public Interest Entities and Certified Auditors of Non-Public Interest Entities. The results are provided in Table C below:

Table C: Engagement Review Findings split by IFIAR Inspection Themes

	2017 FINDINGS						FIRST CYCLE FINDINGS (2015 to 2017)					
	CERTIFIED AUDITORS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDITORS OF NON-PUBLIC INTEREST ENTITIES		TOTAL AUDIT ENGAGEMENTS		CERTIFIED AUDITORS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDITORS OF NON-PUBLIC INTEREST ENTITIES		TOTAL AUDIT ENGAGEMENTS	
IFIAR INSPECTION THEMES	Number of findings	Number of Findings as a % of findings for all Engagements	Number of Findings	Number of Findings as a % of findings for all Engagements	Total Findings	Total Findings as a % of findings for all Engagements	Number of Findings	Number of Findings as a % of findings for all Engagements	Number of Findings	Number of Findings as a % of findings for all Engagements	Total Findings	Total Findings as a % of findings for all Engagements
Group Audits	0	0	0	0	**0**	**0**	1	0	1	0	**2**	**0**
Internal Control Testing	0	0	0	0	**0**	**0**	0	0	1	0	**1**	**0**
Adequacy of Financial Statement Presentation and Disclosures	40	11	25	7	**65**	**18**	65	9	71	10	**136**	**19**
Use of Experts/Specialists	0	0	1	0	**1**	**0**	0	0	1	0	**1**	**0**
Substantive Analytical Procedures	1	0	1	0	**2**	**1**	2	0	8	1	**10**	**1**
Audit Committee Communication	0	0	0	0	**0**	**0**	2	0	0	0	**2**	**0**
Fraud Procedures	4	1	10	3	**14**	**4**	7	1	24	3	**31**	**4**
Risk Assessment	4	1	5	1	**9**	**3**	5	1	18	3	**23**	**3**
Audit Report	8	2	10	3	**18**	**5**	8	1	17	2	**25**	**4**
Accounting Estimates, including Fair Value Measurement	0	0	0	0	**0**	**0**	1	0	10	1	**11**	**2**
Revenue Recognition	0	0	2	1	**2**	**1**	0	0	5	1	**5**	**1**
Inventory Procedures	0	0	0	0	**0**	**0**	1	0	3	0	**4**	**1**
Related Party Transactions	11	3	13	4	**24**	**7**	16	2	18	3	**34**	**5**
Engagement Quality Control Reviewers ("EQCR")	0	0	0	0	**0**	**0**	3	0	0	0	**3**	**0**
Going Concern	0	0	2	1	**2**	**1**	4	1	8	1	**12**	**2**
Adequacy of Review and Supervision	72	20	135	38	**207**	**58**	98	14	263	37	**361**	**51**
Audit Sampling	3	1	9	3	**12**	**3**	5	1	21	3	**26**	**4**
Audit of Allowance for Loan Losses and Loan Impairments	N/A						0	0	2	0	**2**	**0**
Other Areas/Topics	N/A						3	0	19	3	**22**	**3**
TOTAL FINDINGS	**143**	**40**	**213**	**60**	**356***	**100%**	**221**	**31**	**490**	**69**	**711***	**100**

Note: "N/A": In 2016, new themes were introduced, while others previously used in 2015 were either renamed or combined with others
"*" Total findings for all firms

213 (60%) of the 356 total findings for 2017 were for Certified Auditors of Non-Public Interest Entities, while the remaining 143 (40%) were for Certified Auditors of Public Interest Entities. This cycle, of the 711 findings, 490 (69 %) relate to Certified Auditors of Non-Public Interest Entities while 221 (31%) are for Certified Auditors of Public Interest Entities.

Most of the findings in the 2017 reviews were in the theme of 'Adequacy of Review and Supervision' (58%), split between Certified Auditors of Non-Public Interest Entities (38%) and Certified Auditors of Public Interest Entities (20%). This was followed by the 'Adequacy of Financial Statement Presentation and Disclosures' theme with (18%) of the findings, split between Certified Auditors of Non-Public Interest Entities (7%) and Certified Auditors of Public Interest Entities (11%).

For the first cycle, most of the findings related to the theme of 'Adequacy of Review and Supervision' (51%), split between Certified Auditors of Non-Public Interest Entities (37%) and Certified Auditors of Public Interest Entities (14%). This was followed by the 'Adequacy of Financial Statement Presentation and Disclosures' theme (19%), split between Certified Auditors of Non-Public Interest Entities (10%) and Certified Auditors of Public Interest Entities (9%).

The findings for the themes with the highest percentage contributions to the engagement review findings are further analysed below:

a) <u>Adequacy of Review and Supervision Theme's contributions: 58% in 2017; and 51% for the first cycle:</u>

Common findings noted under this theme included:

i) During the risk assessment of entities, the auditors identified various areas as significant risks, however, there was no documented evidence that the auditors had evaluated the design of the related controls, including the relevant control activities, and the implementation thereof, in respect of the significant risks identified.

ii) No documentation of audit work undertaken to understand the information systems, including the related businesses processes, relevant to financial reporting for the classes of transactions in the entities operations that are significant to the financial statements.

iii) Inquiries of management and those charged with governance on fraud were not documented, i.e. their knowledge of any actual, suspected or alleged fraud; their assessment of fraud risk and processes to identify and respond to fraud risk; management's communications to those charged with governance regarding processes for identifying and responding to the risks of fraud in the entity; and management's communication, if any, to employees regarding its views on business practices and ethical behaviour.

iv) Evidence of audit work carried out on material balances stated in the financial statements was either inadequate or was not documented altogether. In some cases, the auditors had indicated on the working papers that the samples were traced to various supporting documents, however the identifying characteristics of those supporting documents were not documented.

v) No documented evidence of the sampling plan which the auditors had used to determine sample sizes; and to select sample items for detailed testing.

vi) No documented evidence that the auditor had evaluated managements' assessments, if any, of useful lives and residual values of Property, Plant & Equipment.

vii) Financial assets not sufficiently and appropriately assessed for impairment.

viii) No documented evidence that confirmations of related party balances, bank balances, long term liabilities had been requested and/or received.

ix) Various unexplained differences were noted between the BURS tax returns (ITA 201 & ITA 202) and the financial statements.

x) No documented evidence of any journal entry testing carried out by the auditors to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements.

xi) Consideration of the effect of uncorrected misstatements, if any, related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements was not documented.

xii) Written representations received from those charged with governance were considered inadequate as they did not cover some of the International Standard of Auditing requirements.

xiii) Documentation of some audit work undertaken by the auditors on some account balances were not assembled timely as it was only provided upon our enquiries during the reviews.

b) <u>Adequacy of Financial Statement Presentation and Disclosures: 18% in 2017; 19% for the first cycle:</u>

As a general observation, the quality of review of financial statements was a matter of concern as practically all financial statements reviewed had numerous disclosure deficiencies of varying magnitudes; which could mislead the users of financial statements. These deficiencies included the following:

i) Material misstatements of disclosures in the financial statements, i.e. discrepancies between balances disclosed on the notes and balances disclosed on the face of the four main statements in the financial statements.

ii) Financial statements of some entities showed that the entities held shares in subsidiaries, however, no consolidated financial statements were prepared and presented; and there was neither disclosure in the financial statements, as to why consolidated financial statements had not been prepared; and whether the conditions for exemption from preparation of consolidated financial statements as per requirements of the International Financial Reporting Standards (IFRSs) had been met.

iii) Disclosures on inventories were not fully compliant with the disclosure requirements of IAS 2.

iv) The amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue but not recognised as a liability in the financial statements was not disclosed.

v) Balances in the financial statements incorrectly classified.

vi) Disclosures for leases not made in accordance with the requirements of IAS 17.

vii) Incorrect/Inadequate accounting policies:

- the accounting policies on financial instruments did not include a list of all the financial instrument categories for financial assets and liabilities, and the related accounting policies as required by IFRSs;
- no accounting policy on the treatment of dividends paid/declared;
- no accounting policies on significant balances disclosed in the financial statements; and
- accounting policies that were considered not to be relevant based on the nature of the businesses were disclosed in some financial statements.

viii) Incorrect cross referencing between financial statements elements.

ix) Disclosures in the notes not casting to balances indicated as totals in the financial statements.

c) <u>Other areas of concern</u>

The 'Audit Report' theme, even though it was not one of themes with the highest percentage contributions to the engagement findings, was considered to be an area of concern. It was noted during our audit practice reviews that some firms had numerous modified audit opinions issued by audit practitioners on audits of financial statements without fully following the audit procedures outlined in ISA 705, "**Modifications to the Opinion in the Independent Auditor's Report".** These procedures included the following: the auditors had not:

i) documented and concluded, as required by ISA 705, Paragraph 7(a) that the possible effects of the undetected misstatements, if any, could be both material and/or pervasive; with pervasiveness conforming to the requirements of ISA 705, Paragraph 5(a) as to what the firm considers as being pervasive;

ii) provided evidence that they had timely communicated and discussed the matters giving rise to a potential modified opinion with Those Charged with Governance prior to issuing the report, as required by ISA 260, Para A14, A16 and A18: and ISA 705, Para 28;

iii) documented that it was not possible to use alternative procedures; as required by ISA 705, Para A9; and

iv) provided any evidence that he had made appropriate consultations on such difficult and contentious matters before deciding to modify the audit opinion, as required by ISQC1, Paragraph 34.

Summary of Audit Practice Review Findings and Decisions

The Engagement Performance element of an audit firm's system of quality control tends to have the most significant impact on the overall performance in a firm review. Therefore, all audit practices with engagement practitioners whose performance was "Unsatisfactory" in engagement review also attained an "Unsatisfactory" rating in the Engagement Performance element of the firm review; and consequently, attained an "Unsatisfactory" rating in the overall audit practice review.

In line with the Authority's audit practice review methodology, which is explained in more detail at page 5, issuance of a single inappropriate audit opinion, irrespective of the practitioner's or other practitioners' performances on other engagements, is indicative of serious deficiencies in the firm's overall system of quality controls. Therefore, in such circumstances, both the practitioner's performance and that of the whole firm is assessed to be unsatisfactory.

Of the twelve firm reviews undertaken during 2017, four (4) (33%) attained a "Satisfactory" rating while eight (8) (66%) attained an "Unsatisfactory" rating with a recommendation for a re-review within 18 to 24 months. (See table B above)

Twenty-eight (28) firms were reviewed during the first cycle. Thirteen (13) (46%) of these attained a 'Satisfactory' rating; eleven (11) (39%) attained 'Unsatisfactory' rating and were recommended to be re-reviewed; four (4) (15%) attained an 'Unsatisfactory' rating for the third time in a row and three (3) of the practitioners' certificates were revoked in line with the BICA three strikes rule while one (1) is pending the final outcome from BICA. (See table B above)

The Authority, however, wishes to emphasize that the primary objective of audit practice reviews is to raise the standard of audit and protect public interest. For that reason, the Authority's audit practice review reports are proactive and forward looking, contain detailed recommendations and guidance to enable audit practices to improve their performance and overall standard of audit, where such need has been identified. Deregistration of an audit practitioner or firm is a last resort and will only be considered if an audit firm/practitioner fails three reviews consecutively, and it is determined that there is little prospect of an audit firm/practitioner improving in the short-term, in order to meet the minimum performance standards; or if the performance of a firm or practitioner, even if at first or second review, is considered so bad that continued practice would put public interest or those for whom the audit reports are intended, at significant risk.

Conclusion

Based on the results of the audit practice reviews undertaken by the Authority in 2017, it is evident that audit firms need to improve their systems of quality controls, particularly the Human Resources, Engagement Performance, Independence & Ethical elements and Monitoring (interchangeably referred to in this case as IFIAR themes).