

Audit and Assurance Faculty Webinar



Cold File Reviews and Root Cause Analysis

PRESENTED BY DAVID GALLAGHER

Presenters

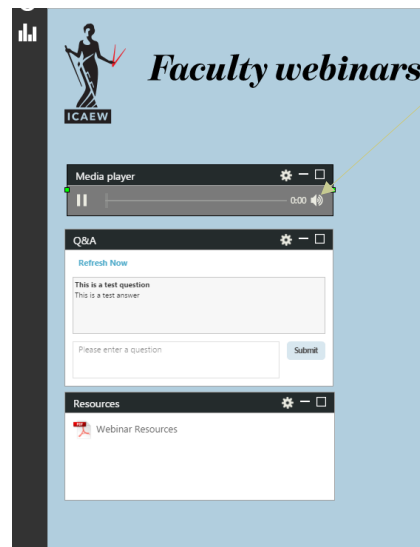


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Introduction



Audio problems?

- ensure your volume is turned on
- if you experience poor sound quality you may benefit from refreshing your page

Cold File Reviews and Root Cause Analysis

David Gallagher

12 March 2018



Objectives

How to

- Maintain a consistent approach
- Draw out best practice and efficiencies
- Apply RCA in practice



Polling Question

- Are you most interested in:
 - Audit cold file reviews only
 - Audit and non-audit cold file reviews
 - Non-audit cold file reviews only
 - Neither audit or non-audit cold file reviews





Overview – CFR

- Who?
- Grading?
- Consistent approach
- Report findings
- Non-audit reviews





Overview - RCA

- How?
- Approach
- Practical experience
- Issues



Who does the review?

External	Internal
Objectivity	Better understanding
Expertise	More time available
Cost effectiveness?	Cost effectiveness?



Who does the review?

- Individual v small group v wider group v all RIs
- Factors
 - Competence
 - Consistency
 - Resource
 - Benefits of seeing best practice

Polling Question

- Do you adopt a system of grading for:
 - Audit cold file reviews only
 - Audit and non-audit cold file reviews
 - Non-audit cold file reviews only
 - Neither





Grading

Pros	Cons
Enables measurement	Contentious
Avoids misunderstandings	Stifles openness



Example grading

Grading	Notes	Further action
Green	Only relatively minor weaknesses noted.	No further action
Yellow	No significant weaknesses noted but either one or two potentially significant areas or a number of other issues (including insufficient documentation) noted.	Maybe extra training. If second consecutive yellow, may take further steps.
Orange	Either one or more significant weaknesses noted, or a number of less significant but substantial issues noted.	Typically RI will be included in next 6 month round of reviews. Second consecutive orange may lead to red status.
Red	The nature or number of weaknesses noted are significant and may include where we appear to have drawn an incorrect audit opinion.	Hot review of all subsequent files until clearance has been granted by TEG.



Consistent approach

- Checklist
- Standard report
- Moderation of reports / gradings
- Defined process



Example report - audit

Office:		Year end:	
Client:		Manager:	
RI:		Date:	
Reviewer:			

1 Client details

Nature of business:			
Group involvement:	£	Profit/(loss):	£
Turnover:	£	Materiality (final)	£
Net assets:	£	Date of audit report:	
Date accounts approved:			

2 Summary and recommendations

Summary

Recommendations

Areas of best practice

Efficiencies

3 Overall comments on file completion

4 Consideration of appointment

5 Understanding the entity and environment and assessing

6 Planning the audit approach in response to assessed risk

7 Audit evidence

8 Completion

9 Financial statements

Appendix 1

Review grading

Grading	Notes on grading	Further action
Green	Only relatively minor weaknesses noted and the file is sufficient to support the audit opinion.	No further action. The RI will be selected during the standard cycle of file selection.
Yellow	No significant weaknesses noted but either: <ul style="list-style-type: none"> one or two potentially significant areas noted, or; a number of other issues (including insufficient documentation of work done and conclusions drawn) noted. <p>However the file appears to be sufficient to support the audit opinion.</p>	This may be down to training and an agreed upon action may need to be taken. If this is the second "yellow" in succession, dependent upon the reasons for the grading, this may lead to further action to be agreed by the TEG. One possible action may be another file being reviewed in the next round of cold file reviews.
Orange	Either: <ul style="list-style-type: none"> One or more significant weaknesses noted, or; A number of less significant but substantial issues noted. <p>As a result it may be that the file, as it stands, is not sufficient to support the audit opinion.</p>	In order to maintain a level of consistency, any file with an "orange" grade will result in the file being submitted to TEG for a <u>second tier</u> review. Only once this review has been performed will the remedial action be confirmed. Remedial action is likely to include the RI being included in the next round of cold file reviews. In the interim further action may also include a hot review of the planning until clearance from such measures has been granted by TEG. If this is the second "orange" in succession, dependent upon the reasons for the grading, this may lead to further action to be agreed by the TEG.
Red	The nature or number of weaknesses noted are significant and may include where we appear to have drawn an incorrect audit opinion.	In order to maintain a level of consistency, any file with a "red" grade will result in the file being submitted to TEG for a <u>second tier</u> review. Only once this review has been performed will the remedial action be confirmed. Remedial action will entail:



Report findings

- Technical
- Housekeeping
- Positive / examples of best practice
- Efficiencies





Non-audit reviews

- Differences
- Reports



Non-audit (compared to audit)

Fewer requirements



Wider scope for inconsistencies



More scope for efficiencies





Example report – non-audit

Cold reviews non-audit assignments											
All assignments - mandatory procedures						Accounts preparation - mandatory procedures					
Ethics considerations - B14					Planning	Working papers	Completion				
AML up to date?	Engagement letter up to date?	Fees >£10,000	Assurance	New work type	B11	PAYE/NIC checklist	A21	Documentation of close-out discussions	Pentana (evidence of checking of tailoring questions and exceptions / comments)	Proof reading (copy of proof-read accounts)	
Partner A											
Client 1											
Client 2											
Client 3											
Client 4											
Client 5											
Partner B											
Client 1											
Client 2											
Client 3											
Client 4											
Client 5											



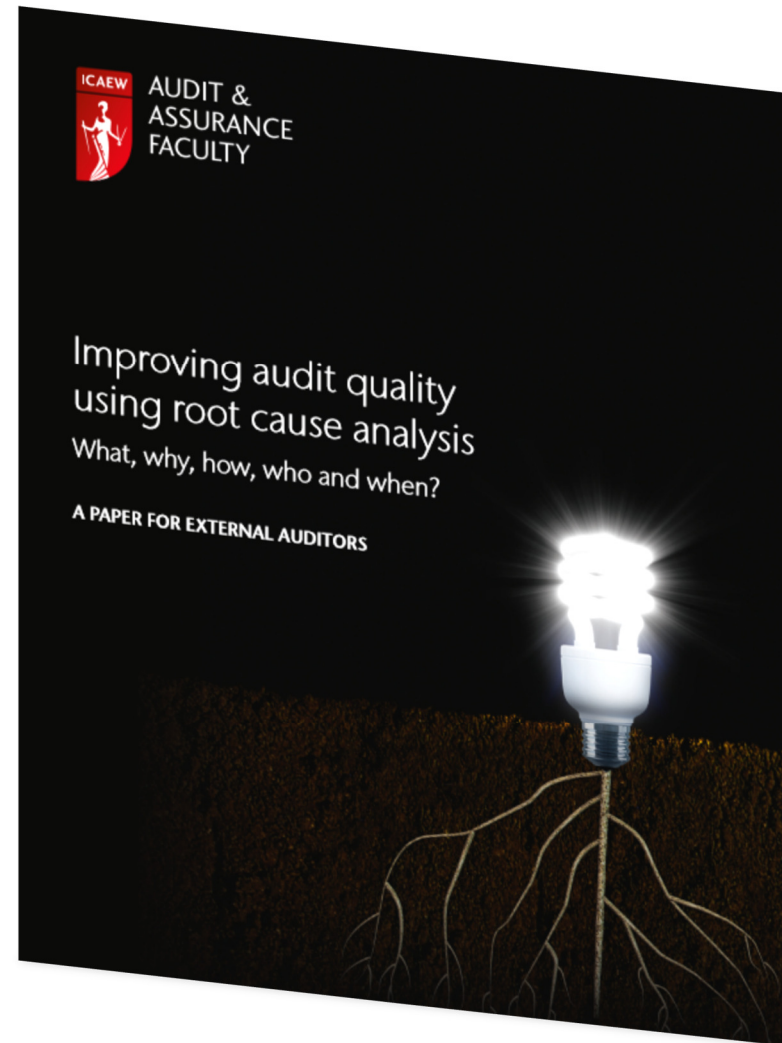
Example report – non-audit

Cold reviews non-audit assignments											
All assignments - mandatory procedures						Accounts preparation - mandatory procedures					
		Ethics considerations - B14				Planning	Working papers	Completion			
AML up to date?	Engagement letter up to date?	Fees >£10,000	Assurance	New work type	B11	PAYE/NIC checklist	A21	Documentation of close-out discussions	Pentana (evidence of checking of tailoring questions and exceptions / comments)	Proof reading (copy of proof-read accounts)	
Partner A											
Client 1	Green	Green	Grey	Green	Green	Green	Green	Green	Red	Green	
Client 2	Green	Grey	Green	Grey	Green	Green	Green	Green	Red	Green	
Client 3	Green	Grey	Green	Grey	Green	Green	Green	Orange	Red	Green	
Client 4	Green	Green	Grey	Grey	Green	Grey	Green	Green	Grey	Grey	
Client 5	Green	Grey	Green	Grey	Green	Grey	Green	Green	Grey	Grey	
Partner B											
Client 1	Red	Red	Green	Green	Green	Green	Green	Orange	Red	Green	
Client 2	Red	Orange	Grey	Grey	Green	Green	Green	Orange	Red	Green	
Client 3	Red	Red	Grey	Grey	Green	Grey	Green	Green	Grey	Grey	
Client 4	Red	Red	Grey	Grey	Grey	Grey	Green	Red	Grey	Grey	
Client 5	Orange	Red	Grey	Grey	Grey	Grey	Green	Orange	Grey	Grey	



Root Cause Analysis

- What?
- Why?
- How?
- Who?
- When?



How might RCA be performed?

- RCA for *every* review / finding
- How will results be considered
- Framework
- Approach





Approach

- Discussions with individual who identified issue
- Audit team complete a questionnaire
- Discussions with individuals involved in audit
- Review working papers
- Review supporting documents
- Discussions with methodology / training providers
- Analysis of data collected
- Discussion with other contributors



RCA - Issues

- Resource
- Personal, ethical and attitude
- Process
- Leadership
- Client

Combining CFR and RCA

CFR Stage

- Do you accept the point?
- Why did the issue arise?

Moderation / RCA stage

- Can we find trends / links to findings?
- Why did they arise?
- What is the correct response?





Summary

CFR

- Who?
- Grading?
- Consistent approach
- Report findings
- Non-audit reviews

RCA

- How?
- Approach
- Practical experience
- Issues



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12 March 2017





Resources

- Improving audit quality using root cause analysis
- Cold file audit compliance review helpsheet
- Faculty event programme 2018
- Catch up on Faculty webinars
- Find out more about the Faculty
- Book for future webinars and roadshows



Any questions?

Future webinars and events

- Webinars
 - 3 May – Audit of bank and cash in the light of recent developments
 - 12 June - When audits go wrong.....and right! The importance of being skeptical
- Roadshows
 - Taking place at various locations in April, May and June
 - Focus on the latest developments in audit technology
 - Provide a round up of the latest news

Further information regarding Audit and Assurance Faculty events programme for 2018 can be found at icaew.com/events

Thank you for attending

Please take the time to fill out our short survey

Contact the Audit and Assurance Faculty

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