

REGULATORY BOARD POLICY STATEMENT

AUDIT MONITORING: ACCA'S APPROACH TO NON-COMPLIANCE WITH AUDITING STANDARDS

1. **First visit with an unsatisfactory outcome**
 - 1.1 At monitoring visits, ACCA adopts a constructive approach to compliance with audit standards. If a firm has an unsatisfactory outcome because of non-compliance with auditing standards, usually no regulatory action is taken if it is the first time the firm is found to be non-compliant. Instead, the firm is advised at the visit of the deficiencies in its audit work and given guidance on how to improve its work and comply fully with auditing standards in the future.
 - 1.2 The monitoring visit report that is prepared subsequently also identifies the deficiencies found and lists the action that the firm should take to improve its audit work. The report warns the firm that failure to make the necessary improvements will jeopardise the firm's continuing audit registration and that the firm's next monitoring visit will be scheduled earlier, usually within two or four years time depending on the seriousness of the deficiencies, than would be the case if it had achieved a satisfactory outcome to the monitoring visit.
 - 1.3 An exception to the approach described above is where a firm has made little or no attempt to comply with auditing standards, there is a possibility of loss to clients or the entities audited are considered significant or hold money in a fiduciary capacity. In such cases, the firm is referred to the Regulatory Assessors who will under delegated authority from the Admissions and Licensing Committee consider what regulatory action is appropriate; notwithstanding that it is the firm's first visit with an unsatisfactory outcome.
2. **Second visit with an unsatisfactory outcome**
 - 2.1 After a first visit with an unsatisfactory outcome the firm is expected to improve the quality of its audit work by its second monitoring visit. If it has made the necessary improvements and the audit work complies substantially with auditing standards, no further action is required. Any minor deficiencies identified are discussed with the firm and guidance is given to encourage the firm to improve the quality of its audit work further.
 - 2.2 However, if ACCA finds that the firm has made little or no improvement at a subsequent visit and there remain serious deficiencies in its audit work, it will refer the matter to the Regulatory Assessors for possible regulatory action.

- 2.3 The regulatory action taken by the Regulatory Assessors in such cases normally comprises:
- i ordering a review by a training company, approved by ACCA, of any audits of public interest entities as defined by the UK Financial Reporting Council or the Irish Auditing and Accounting Supervisory Authority before it issues audit reports, to place a safeguard on the issue of audit reports
 - ii ordering ACCA to undertake a further monitoring visit earlier than would otherwise be scheduled
 - iii ordering the firm to contribute to the cost of the above visit, and
 - iv warning the firm that failure to make the necessary improvements to its audit work will jeopardise the firm's continuing audit registration.

3. Third visit with an unsatisfactory outcome

- 3.1 After two monitoring visits with unsatisfactory outcomes, a firm is expected to conduct its audit work substantially in compliance with auditing standards by its next monitoring visit. If the next visit is ordered by the Regulatory Assessors or the Admissions and Licensing Committee and has a satisfactory outcome then the firm will be released from the requirement to have any of its public interest entity audits reviewed by a training company.
- 3.2 However, if there still remain serious deficiencies in its audit work, the firm is again referred for regulatory action. In such cases, the Regulatory Assessors will normally refer the matter to the Admissions and Licensing Committee, with a view to removing the firm's audit registration. The Admissions and Licensing Committee will, in accordance with ACCA's Guidance for Regulatory Orders, normally order that the firm's audit registration be withdrawn.

4. Flexibility in application of the approach

- 4.1 The approach to non-compliance with auditing standards as described above is not applied rigidly because there will be circumstances where some degree of flexibility is appropriate.

- 4.2 For example, not all second unsatisfactory outcomes to a monitoring visit are necessarily referred to the Regulatory Assessors. If the firm has made significant improvements, but the overall outcome is still assessed to be unsatisfactory, Practice Monitoring staff may decide not to refer the findings to the Assessors if it believes that the firm is able and willing to make further improvements in its audit work. In such cases, Practice Monitoring will give the firm appropriate guidance, warn it again that failure to make the necessary improvements will jeopardise its continuing audit registration and schedule its next monitoring visit earlier than would be expected if it had achieved a satisfactory outcome.
- 4.3 Similarly, if a firm has an unsatisfactory outcome to a visit which was ordered by the Regulatory Assessors, it may be inappropriate to refer it to the Admissions and Licensing Committee to consider the withdrawal of its audit registration if the failure to comply with auditing standards is marginal and the firm is willing and able to make the necessary improvements. In such a case the Regulatory Assessors are likely to make the same orders that they made after the second visit with an unsatisfactory outcome, comprising reviews of audit work on public interest entities by a training company, an early revisit and a warning.
- 4.4 Another example is where a firm fails to maintain a consistently satisfactory standard of compliance with auditing standards. It may have a number of monitoring visits with satisfactory outcomes followed by a monitoring visit at which the firm's level of compliance is found to have deteriorated significantly. In such a case, it may be appropriate to refer the firm to the Regulatory Assessors, notwithstanding that it is the firm's first visit with an unsatisfactory outcome.
- 4.5 The Regulatory Assessors and the Admissions and Licensing Committee also take into account the differing facts of each case, including the written representations from the firm.