

Briefing session with PIE auditors: 2022 Annual Inspection Report

Presented by

Ms. Janey Lai, Head of Inspection

Ms. Shirley Hon, Director of Inspection

Ms. Clara Yuen, Associate Director of Inspection

22 September 2023



- Roles and responsibilities of QCS Responsible Persons
- Overview of inspection results in 2020-22 Cycle
- Our 2023 inspection focus
- Our expectations for auditors



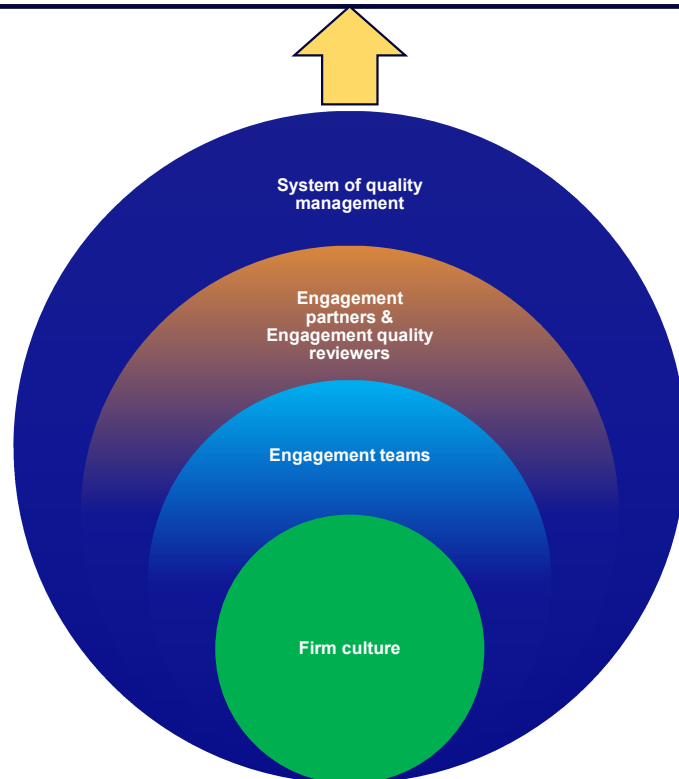
■ **Section 20W**

QCRSP must use the person's best endeavours to ensure that the registered PIE Auditor

- has established and maintains a quality control system in relation to the PIE engagements carried out by the auditor;
- has established policies and procedures for monitoring the quality control system; and
- complies with the policies and procedures.

Roles and responsibilities of QCS Responsible Persons

Key role in serving the Public Interest



Importance of your role as QCS responsible person

- Demonstrate commitment to quality and develop the **firm's culture** that foster quality
- Emphasise quality in the **firm's strategic decisions and actions**
- Hold **ultimate responsibility and accountability** for the firm's audit quality
- Hold **responsibility of all personnel for quality** relating to engagement performance or activities within the SoQM

Overview of inspection results - systems of quality control

Common issues on five SQC elements

| Areas | Common deficiencies / observations |
|--------------------------------------|---|
| Monitoring | <ul style="list-style-type: none">▪ Significant deficiencies not being identified in the internal monitoring program |
| Engagement performance | <ul style="list-style-type: none">▪ Ineffective reviews by engagement partners and/or engagement quality reviewers▪ No or insufficient control to avoid alteration or loss of archived hardcopy engagement documentation |
| Human resources | <ul style="list-style-type: none">▪ Insufficient consideration of audit quality as part of the performance evaluation of audit partners and staff▪ Internal trainings not tailor-designed for different level of personnel |
| Relevant ethical requirements | <ul style="list-style-type: none">▪ No effective controls over personal independence confirmations▪ No control to ensure accuracy and completeness of “family trees” |
| Acceptance and continuance | <ul style="list-style-type: none">▪ Insufficient assessment on resources, competence and audit implications from unresolved matters |




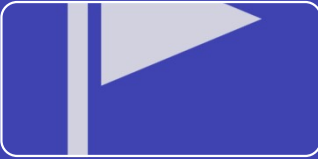

Ineffective engagement partners and/or engagement quality reviews

- Significant engagement findings indicated **ineffective EP and/or EQ reviews**
- **EP's failure**
 - adequately direct and supervise the audit and conduct a quality review to ensure that sufficient appropriate audit evidence was obtained to support the audit opinion
- **EQ reviewers' failure**
 - challenge the engagement teams on the sufficiency and appropriateness of work relating to significant audit matters

Relevant ethical requirements

7

Independence issues identified in the 2022 inspection

-  Network firm of a PIE auditor provided internal control review services to certain material subsidiaries of a listed entity
 - **Self-interest and self-review threat**
 - **Clear breach - R605.5 of COE**
-  Group engagement team prepared financial statements of a material subsidiary of a listed entity
 - **Self-review threat**
 - **Clear breach - R601.6 of COE**
-  Audit fee from a PIE audit client exceeded 15% of the total fees received by the PIE auditor for more than two consecutive years
 - **Self-interest or intimidation threat**
 - **Safeguards required**

Acceptance and continuance procedures

Deficiencies in Cat B and C firms increased significantly from **33%** in 2020 to **71%** in 2022

*****Major issues identified*****

- did not thoroughly assess the audit implications from significant unresolved matters identified by the outgoing auditors
- did not have sufficient assessment on competence and capability, including time and resources, to deliver a quality audit

Overview of inspection results - PIE engagements

9 key areas of engagement findings are significant to audit quality during the 2020-22 Cycle

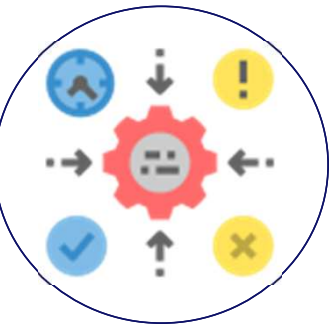
| Year of inspection | Percentage of PIE engagements inspected in which we identified relevant findings | | |
|--|--|------|------------|
| | 2020 | 2021 | 2022 |
| Most common findings that require special attention | | | |
| EF1 - Revenue recognition | 46% | 47% | 40% |
| EF2 - Expected credit loss | 55% | 71% | 58% |
| EF3 - Journal entry testing | 57% | 40% | 47% |
| Findings with an increasing number of deficiencies | | | |
| EF4 - Group audits | 50% | 38% | 58% |
| EF5 - Opening balances | 30% | 21% | 45% |
| EF6 - Use of auditor's experts | 46% | 12% | 59% |
| Findings with significant improvements | | | |
| EF7 - Exercise of professional skepticism | 81% | 46% | 49% |
| EF8 - Sufficiency of audit documentation | 68% | 30% | 36% |
| EF9 - Key audit matters | 32% | 12% | 2% |



Common causes of the identified findings

10

Root Cause Analysis



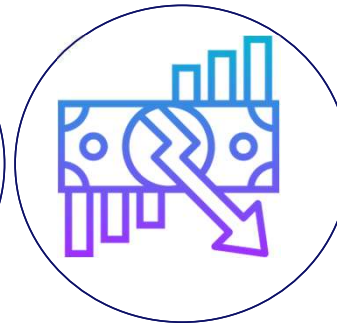
**Assessment
of competence
and
capabilities**



**Partner
involvement
and quality
reviews**



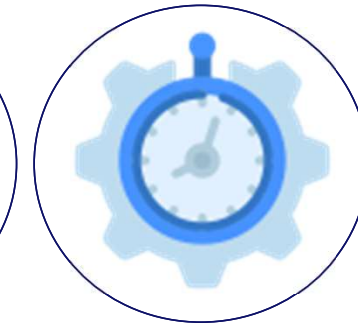
**Exercise of
professional
skepticism**



**Knowledge
and
experiences**



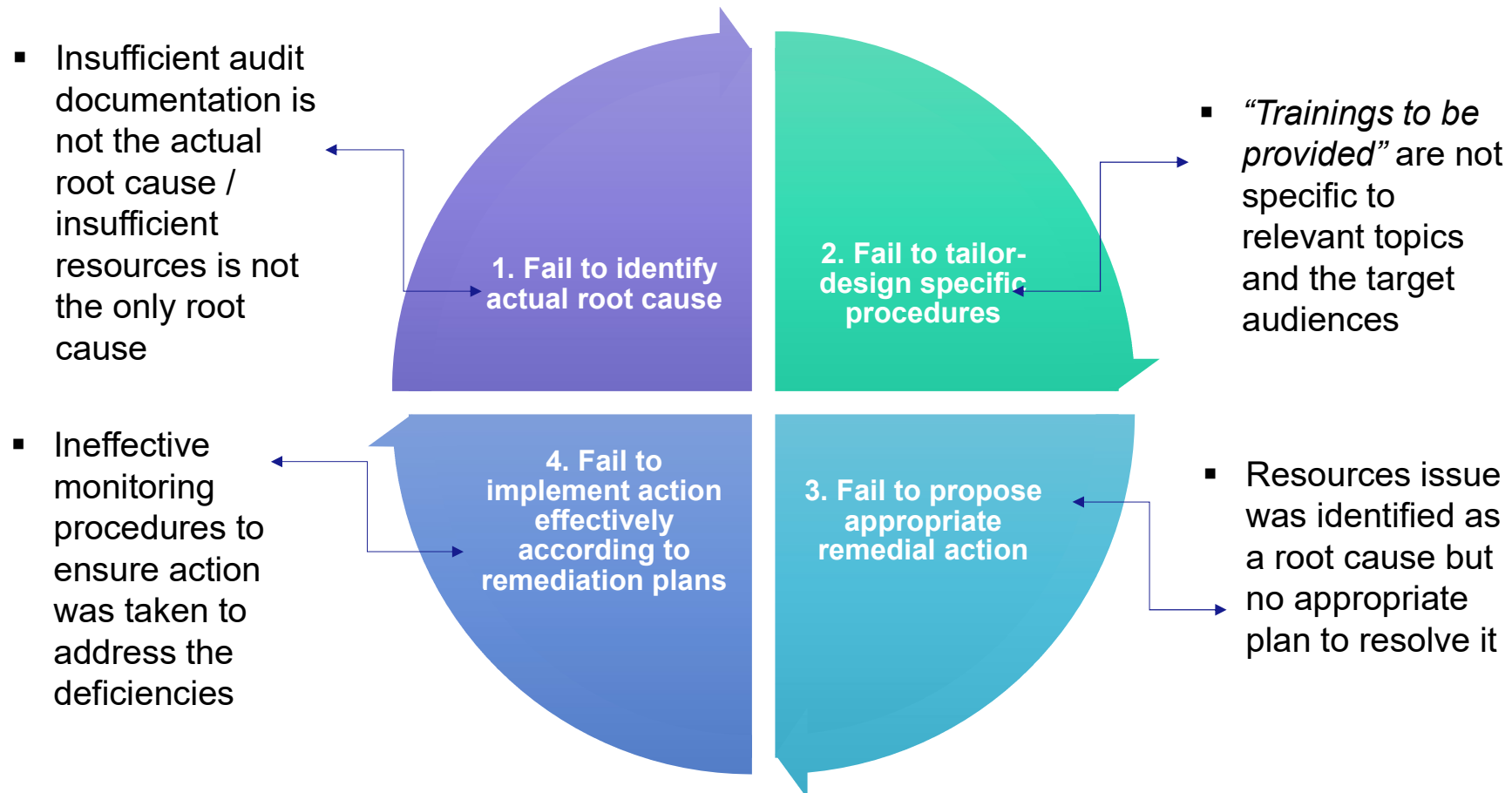
**Training and
guidance**



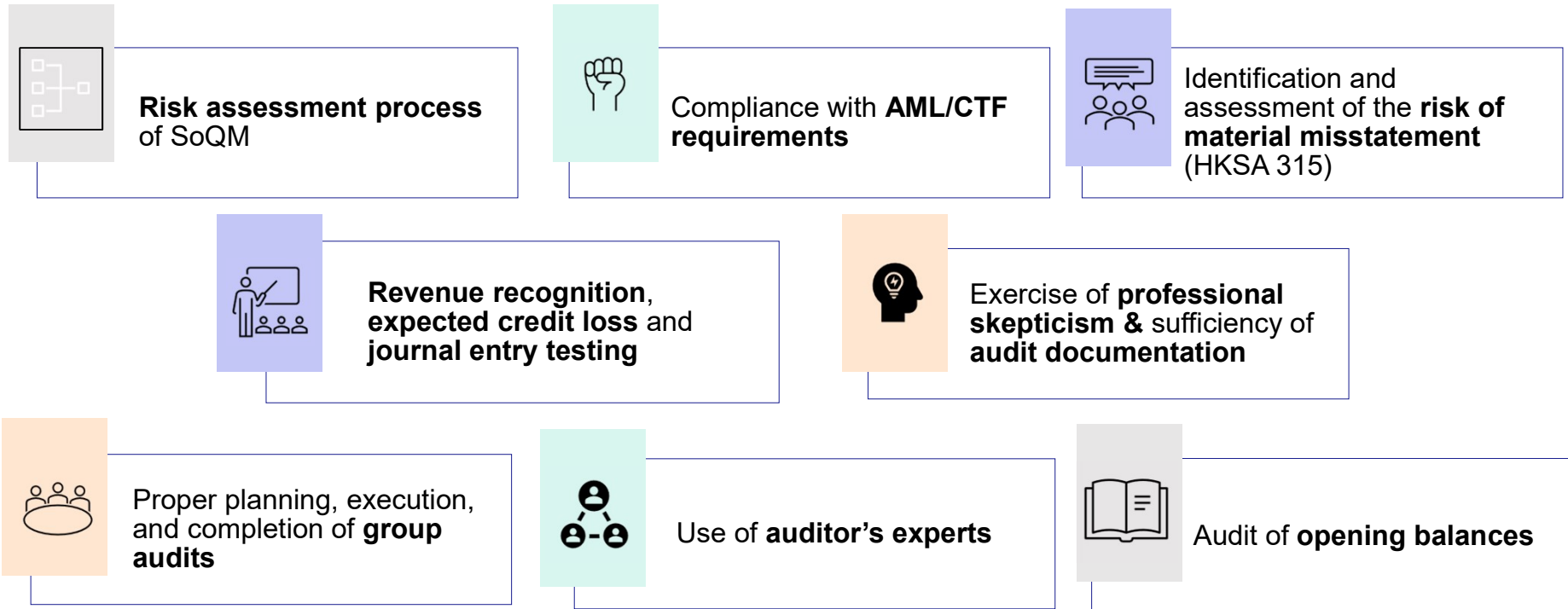
**Project
management
skills of the
engagement
team**

Deficiencies in root cause analysis and remediation plans

11



2023 inspection focus - to drive good audit quality



Our expectations for auditors



**Firm's culture:
AUDIT QUALITY
at TOP PRIORITY**



Heighten
**professional
skepticism**



Use of
technology



Be co-operative
during inspection
process



Develop **specific,
appropriate and
measurable actions** to
address inspection
findings



Take the benefit
by **learning**
from inspection
process



Communicate
AFRC's results with
relevant PIE's audit
committee and
directors

Thank you

This presentation contains information compiled by the AFRC which is not intended to be exhaustive. The information has been prepared in general terms for reference only, without considering specific circumstances pertaining to any individual or individual case. It does not constitute advice from the AFRC and cannot be relied upon to cover specific situations. You should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. The AFRC does not accept any liability (whether in tort or contract or otherwise) for any loss or damage arising from any inaccuracy or omission or from any decision, action or non-action based on or in reliance upon information contained in this presentation.