

Good practice when taking on new audits

Author: ICAEW

Published: 03 Nov 2022

Recent intelligence shows that there are significant numbers of UK companies seeking new auditors and that the audit tender market is buoyant. Audit firms that evolve and enhance their client acceptance procedures adapting to current market risks are well equipped to make informed decisions when choosing to accept new audits into an existing portfolio.

ICAEW's Quality Assurance Department would like to share examples of good practice that has been identified during recent calls and visits to audit firms.

System of Quality Management

A firms' risk assessment process is a key component of the System of Quality Management. This should ensure that audit processes and procedures develop in a way that is responsive to changes in the nature and circumstances of the firm and its engagements. Firms who have considered the impact of ISQM 1 tell us that they have identified the need for more stringent checks in the current market and are ramping up acceptance procedures accordingly.

Seeking the right opportunities

With a buoyant audit tender market, firms have the opportunity to grow their profile by taking on larger, more complex and higher risk audit clients. Firms can also grow the size of their audit practice by taking on a greater number of audits. The key to success of any such strategy is to ensure that commercial objectives do not override critical quality and risk management factors, such as ensuring:

- competence of the firm in the industry sector and specialist or complex areas;
- resources are adequate and available at the right time in the right locations;
- conflicts of interest are avoided and ethical threats sufficiently mitigated;
- effective utilisation of previous experience in transitioning similar audits; and
- the new client fits with the firm's strategy.

One firm we visited had seen a near 50% increase in their audit client base year on year. It attributed its ability to expand whilst still maintaining audit quality to a well-planned strategy to grow the practice. It only took on clients from the larger audit firms using specific target criteria based on the firms' objectives. No tender was made for anything that wasn't clearly a good fit, even if it may have been lucrative financially.

Assessing the risks

One firm that we spoke to had concerns during a particular tender process about information included in the previous auditor's cessation statement. However, by completing a thorough risk assessment and discussing the specific risks with both the predecessor firm and prospective audit client in detail, the firm was able to identify that it had the required competence and experience to address the risk. Consequently, the firm accepted the audit, marking it as higher-risk and resourced the audit on that basis, designing and performing procedures accordingly, and agreeing a fee that would reflect the required work. Here, taking the additional time to really understand the specific risks in detail before accepting the engagement, enabled the firm to take on an audit client that they might previously have dismissed. The firm satisfied its commercial objectives, whilst also effectively managing quality and risk considerations.

Ongoing monitoring

Thoroughly understanding the risks to inform risk assessment also allows audit firms to maintain an effective quality monitoring process. One firm taking on a group audit that was significantly larger than other audits in its portfolio, planned an independent 'hot review' including input at the planning stage of the audit. This led to real-time assurance, helping the firm to avoid common pitfalls, and challenge the client's management effectively in the most complex and judgemental areas. Audit firms

should consider the benefits of obtaining hot reviews of new audits, particularly where the identified risks or the size, scale and industry are ones where the firm has historically less experience.

Investment of time from the start

There are many different factors to consider when accepting a new audit, but it is clear that those audit firms who take plenty of time to really understand the risks before accepting and apply this to the audit are able to approach the first year with more confidence and a deeper awareness of what to expect.

We will continue to monitor the audits undertaken across ICAEW registered auditors and contact firms between monitoring visits about particular audit clients, or groups of audit clients. These contact points may take the form of a meeting and/or review of completed audit files and will be in addition to standard audit monitoring visits.

The objectives of our work, wherever possible, are to support firms to develop their audit practices and maintain high standards.

Risk alert for new audit tenders

Quality management and ISQM 1