

# Enhancing Audit Quality – Annual and Comprehensive Assessments

Office responses to questions anticipated from Audit Committees regarding audit quality at the OAG

	Question	Answer
1	Does the audit firm put forward team members with appropriate industry and technical skills to carry out an effective audit?	<p>This is a judgment to be made by the audit committee. The engagement leader may wish to outline how before the completion of the planning/survey phase of an assurance engagement, the engagement leader shall</p> <ul style="list-style-type: none"> <li>• assess the engagement team in order to be satisfied that the engagement team, specialists and any auditor's experts, collectively have the appropriate competence and capabilities; and</li> <li>• assign roles and responsibilities.</li> </ul> <p>Source – OAG Audit 3061 - Engagement team: assigning and managing tasks</p> <p>There may be value in discussing the Retain Profiles that were provided to the Audit Resource Planning and Career Management Team in Sept 2014.</p>
2	What is the OAG policy regarding staff that are hired by audit entities and its impact on our independence?	<p>The Office manages the risks to our independence from the hiring of our staff by audit entities as follows:</p> <p><b>Senior audit staff</b> - The Office Code of Values, Ethics and Professional Conduct provides that employees in the categories of DAG, AAG, principal, and director must disclose to their supervisor (AAG, DAG, or the AG) all offers of employment that could place them in a real, apparent, or potential conflict of interest situation. They must also disclose immediately the acceptance of any such offer.</p> <p>Further, these employees shall not, within a period of one year after leaving the Office</p> <ul style="list-style-type: none"> <li>• make representations for, or on behalf of, persons to any department or organization with which they personally, or through their subordinates, had significant official dealings during the period of one year immediately prior to the termination of their service; or</li> <li>• give advice to their clients using information that is not readily available to the public concerning the programs or policies of the departments or organizations with which they had a direct and substantial relationship.</li> </ul> <p>The above effectively prohibits our senior engagement personnel from assuming a role in any department or organization where they had significant official dealings (eg. an entity in their audit portfolio) where they would make representations to the Office concerning the subject matter of an audit for a period of one year after leaving the Office.</p> <p><b>Secondments and interchanges</b> – Prior to authorization, the Office carefully reviews these arrangements paying particular attention to the specific responsibilities of the position being considered. The Assistant Auditor General</p>

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		<p>with oversight responsibility for the audit entity in question must approve the arrangement and may request modifications to the duties of the position that are considered to create a potential threat the Office's objectivity and independence. Additional review of the arrangement may occur by parties other than those with oversight responsibility for the audit prior to final authorization.</p> <p><b>In addition</b> – The Office requires that all engagement team members remain alert to threats to their individual independence. Sources of potential threats include personal relationships/familiarity with employees of audit entities who have previously worked in our Office.</p>
3	<p>What are the key elements of the firm's quality control processes and how are they applied to the entity's audit?</p>	<p>A general description of the Office's System of Quality Control was included in the RAC Plan this year (see Appendix H) to help improve the audit committee's understanding.</p> <p>Engagement leaders are further directed to our <a href="#">SofQC Intranet page</a> for more insights.</p>
4	<p>What are the firm's training and development plans?</p>	<p>As it relates to financial audit, the Office recently introduced a multi-year audit milestone curriculum to train those in our financial audit practice on the application of our audit methodology. Auditor's move through the curriculum based on their level and audit responsibilities. We further train our auditors on newly effective accounting standards each year through a combination of electronic learning modules and classroom instruction. All training registration and completion is monitored. Accounting training attendees must complete a pass/fail assessment upon completion of electronic learning modules prior to attending classroom sessions. Year over year changes to our audit methodology as well as future changes to accounting standards are communicated via update announcements and information sessions.</p>
5	<p>What are the firm's expectations as to future partner rotation or other changes to senior engagement team personnel? (note, a comprehensive review may be more effective towards the end of the engagement partner's rotation)</p>	<p>Our Office methodology adheres to rotation expectations set out in the rules of professional conduct of those jurisdictions in which we conduct our audits. Generally, senior engagement personnel <u>must</u> rotate after 7 years.</p> <p>The Engagement Leader should be prepared to discuss specific engagement rotation status with the audit committee, including length of time senior personnel and the quality reviewer have been on the engagement, and any relevant transition plans.</p>

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6	<p>What efforts are being made to <u>enhance</u> audit quality within the audit firm generally?</p>	<p>Our Office continues to:</p> <ul style="list-style-type: none"> <li>• Maintain its audit methodology and training through a strategic alliance with a the large national audit firm</li> <li>• Perform regular practice reviews of audits completed</li> <li>• Request that our audit entities complete a post audit survey</li> <li>• Monitor the effectiveness of our system of Quality Control</li> <li>• Subject itself to an international peer review (for the practice as a whole) at least once every 10 years</li> </ul> <p>In recent years, we have implemented:</p> <ul style="list-style-type: none"> <li>• Renewing our audit and accounting training curriculums (content and delivery methods)</li> <li>• Modernizing the training offered within the OAG for technical and management skills</li> <li>• Formal environmental scans to ensure our audit methodology remains standards based, adapts to emerging trends and aligns to best practices</li> <li>• Monitoring CPAB reports and assessing applicability of findings to our practice</li> <li>• Reporting to our engagement leaders a written report of common deficiencies in financial statement presentation and disclosure observed during pre-issuance reviews of financial statements</li> <li>• Performing root cause analysis studies when certain audit issues arise</li> <li>• Matching skills and experience appropriately to engagement through the use of an office wide staff scheduling system (Retain)</li> </ul>
7	<p>How has the audit firm considered systemic audit quality issues identified by CPAB in its public reports?</p>	<p>As part of monitoring our external environment, the Office’s professional practices group reviews each CPAB public report and considers their observations in the context of our audit practice. These reviews are discussed internally with engagement leaders and our executive committee members involved in the annual audit practice. Actions resulting from these reviews may include communication and/or revisions to methodology.</p> <p>Our strategic alliance with a national audit firm for financial audit methodology provides a further analysis of CPABs observations as that firm is subject to CPAB review and also considers systemic audit quality issues communicated by CPAB. Our strategic alliance is one input to the continuous improvements we make to our methodology each year.</p>
8	<p>How does the external auditor inform the audit committee about matters that might reasonably be thought to bear</p>	<p>Our independence, including any relationships between the organization and audit staff that, in the Office’s professional judgment, may reasonably be thought to bear on our Office’s independence are communicated to the Audit Committee prior to commencing the audit in the Annual Audit Plan, and again at the end of the audit, in the</p>

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	on the firm’s independence?	Annual Audit Results document.
9	What threats to institutional familiarity does the Office monitor and what steps are taken to address them when they arise?	<p>The Office is not insulated from the threat of institutional familiarity – threats arising from long tenure of the audit firm may arise.</p> <p>However, the OAG does not provide non-audit services such as tax planning or internal audit services to any of the entities it audits. The Auditor General is appointed for a fixed term and cannot be reappointed. We do not charge or earn revenue directly from the entities we audit. These are significant safeguards to the threat of institutional familiarity which limit the need for extensive monitoring or actions to address threats.</p> <p>We seek direct feedback on our objectivity in each post audit survey and actively monitor and address the rotation of individuals participating in each audit engagement.</p>
10	What personnel changes in the Office could create a perception that we are no longer independent of a particular entity?	The Engagement Leader should be prepared to discuss known specific personnel changes in the Office that may threaten the Office’s perceived independence – e.g. recent departures of senior executives for positions within the audit entity.
11	How does our methodology support the engagement team in addressing potential risks of fraud?	<p>Engagement Leaders may draw on their understanding of our methodology to respond to this question. A general explanation follows.</p> <p>Our audit methodology contains extensive guidance concerning the risk of fraud. This guidance outlines:</p> <ul style="list-style-type: none"> <li>• The importance of considering risk of material misstatement due to fraud throughout the audit</li> <li>• The importance of professional skepticism</li> <li>• Direction on appropriate inquiries to make of management, those charged with governance, internal audit and others within the organization</li> <li>• The use of analytical procedures to identify risks of material misstatement due to fraud</li> <li>• That audit teams consider fraud risk factors as they evaluate the entity’s internal control framework</li> <li>• That audit teams must hold an explicit discussion placing particular emphasis on how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur – audit teams are provided a sample meeting agenda for use in guiding these discussions</li> <li>• Examples of circumstances that indicate the possibility of fraud</li> <li>• That audit teams must presume or rebut that certain risks are present unless it can be shown otherwise</li> </ul>

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		<ul style="list-style-type: none"> <li>• That audit teams must document their risk assessments and planned audit responses, including special audit considerations addressing the risk of management override of controls</li> <li>• That audit teams must inquire of those involved in financial reporting and test journal entries,</li> <li>• That audit teams must review accounting estimates for biases</li> <li>• That audit teams must evaluate and test significant transactions outside the normal course of business</li> <li>• That auditors have access to an internal specialist on the subject of fraud and wrongdoing</li> </ul>
12	How has the Office responded to audit quality issues raised in CPAB's public reports?	<p>Engagement leaders have been briefed and informed where to locate CPAB's public reports at PX/DX Forums.</p> <p>The 2012 public report discussion took place in January 2014 at the PX/DX Discussion Group and the materials are saved in Proxi.</p> <p>The 2013 CPAB public report is found here – <a href="http://www.cpab-crc.ca/Documents/Topics/Public%20Reports/2013_Public_Report_EN.pdf">http://www.cpab-crc.ca/Documents/Topics/Public%20Reports/2013_Public_Report_EN.pdf</a></p> <p>The 2013 public report discussion took place as part of the EAQ initiative discussion at the October 2014 PX/DX Discussion Group and the materials are saved in Proxi.</p> <p>Engagement teams are to provide those charged with governance a copy of CPAB's latest public report as indicated in the RAC plan.</p> <p>Engagement leaders should be prepared to discuss questions from those charged with governance concerning the systemic audit quality issues identified by CPAB.</p> <p>Actions taken that directly respond to 2012 CBAP findings included:</p> <ul style="list-style-type: none"> <li>- Professional skepticism – expanded our audit guidance (OAG Audit 1041) – July 2013</li> <li>- Substantive analytics – reminders of pitfalls (January 2014)</li> </ul> <p>Actions taken that directly respond to the 2013 CPAB findings included:</p> <ul style="list-style-type: none"> <li>- Professional skepticism – while our audit methodology explicitly acknowledges rotation at all levels, no specific initiatives are underway.</li> <li>- Audit of accounting estimates – no specific initiatives identified.</li> <li>- Audit work on internal controls – the role of the controls assurance group is being reviewed.</li> </ul>
13	How has the Office responded	The Office's most recent peer review report is available here – <a href="http://www.oag-">http://www.oag-</a>

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	to audit quality issues raised in its last peer review?	<p><a href="http://bvg.gc.ca/internet/English/acc_rpt_e_33892.html">bvg.gc.ca/internet/English/acc_rpt_e_33892.html</a></p> <p>Our management response was communicated to parliament and is available here –</p> <p><a href="http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=4933540&amp;Mode=1&amp;Parl=40&amp;Ses=3&amp;Language=E">http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=4933540&amp;Mode=1&amp;Parl=40&amp;Ses=3&amp;Language=E</a></p> <p>and</p> <p><a href="http://www.parl.gc.ca/Content/HOC/Committee/403/PACP/WebDoc/WD4595936/Action_Plans/52-Office%20of%20the%20Auditor%20General%20of%20Canada%202011-03-18-e.htm">http://www.parl.gc.ca/Content/HOC/Committee/403/PACP/WebDoc/WD4595936/Action_Plans/52-Office%20of%20the%20Auditor%20General%20of%20Canada%202011-03-18-e.htm</a></p>
14	Can the Audit Committee discuss matters with the Quality Reviewer?	Yes. Engagement leaders and quality reviewers should ensure discussions with the quality reviewer are not used as an attempt to discredit or undermine the authority of the engagement leader/practitioner particularly where a difficult or contentious arose during the audit.