

Audit Delivery Models

IAASB Staff Presentation

Agenda Item 4-A

March 2015 IAASB Meeting

Purpose of the Session

- To update the IAASB on the current practices related to the use of alternative Audit Delivery Models (ADMs) by accounting firms
 - Not intended to address use of component auditors as defined by ISA 600
- Sources of information
 - A survey distributed through the Forum of Firms (FoF)
 - Discussions with representatives of the Global Public Policy Committee (GPPC) of the six largest accounting firms

What are Alternative Audit Delivery Models?

- For the purposes of this presentation, the term “audit delivery models” refers to centralized locations performing audit and audit-related procedures on behalf of the core engagement team
 - The locations may either be in the same country (“on-shoring”) or a different country (“off-shoring”) to that of the core engagement team

Overview

- Growing use of ADMs by accounting firms
 - As a result of the change in the global business environment
 - In response to the manner in which clients are organized
 - As a means to improve audit quality
 - As a means to address resource constraints
- Use of ADMs is not just seen as a means to save costs
- Focus on matching “right people and right skills to right tasks”

Overview

- Firms are putting policies and procedures/safeguards in place over use of ADMs
 - Persons performing the tasks at an ADM location are often part of the same firm or network of firms
 - Persons performing tasks at an ADM location generally viewed as part of the engagement team as defined by ISA 220, including those with specialized skills in accounting and auditing
 - However, some of the tasks may be viewed as using auditor's internal experts in accordance with ISA 620

Factors Affecting the Decision to Use an ADM

- Risk, complexity and level of judgment required
- Availability of appropriately qualified and trained personnel
- Whether the work is capable of being performed at a location remote from the client
- Legal, cross border and confidentiality restrictions
- Internal quality control requirements
- Previous experience with the ADM location at the firm & engagement level
- Timing of work and cost of using an ADM

Quality Control Procedures Governing ADM Resources

- Policies and procedures addressing ADMs, e.g.,
 - Independence
 - Education (competence and capabilities)
 - Guidance or “pre-approval” on what types of procedures can be performed by the ADM
- Focus on review and supervision responsibilities, supplemented by internal quality control systems at the ADM

Audit-related Activities Performed by the ADM

- Across all phases of the audit
- Range of procedures noted, with appropriate supervision put in place, especially for areas that may require more judgment
- Core engagement team time savings (if any) generally at the more junior level

Audit-related Activities Performed in an ADM (cont.)

No or little judgment required —————→ **Greater use of judgment**

Planning

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| <ul style="list-style-type: none">• Roll forward working papers• Set up analytics• Test reports for completeness | <ul style="list-style-type: none">• Business process narratives• Business process diagrams• Summarize internal audit reports | |
|--|--|--|

Execution

- | | | |
|--|--|--|
| <ul style="list-style-type: none">• Obtain external confirmations• Bank reconciliations• Testing mathematical accuracy/consistency of data• Recalculation• Completeness of journal entries | <ul style="list-style-type: none">• Test journal entries for predetermined characteristics• Summarize contracts & meeting minutes | <ul style="list-style-type: none">• Provision of pricing information• IT testing, e.g., security, program maintenance |
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Audit-related Activities Performed in an ADM (cont.)

No or little judgment required		Greater use of judgment
Completion		
<ul style="list-style-type: none">• Testing financial statements for mathematical accuracy (e.g., financial statement tie out)	<ul style="list-style-type: none">• Financial statement disclosure checklists• Cash flow statements• Draft management representation letters	
Other		
<ul style="list-style-type: none">• General administrative tasks	<ul style="list-style-type: none">• Group audit support	

Is the Use of ADMs Adequately Addressed by ISQC 1 and the ISAs?

- Views expressed by firms indicate ISQC 1 and ISA 220 are seen to apply to ADMs performing audit-related activities
 - However, these standards do not directly address these activities
 - Staff initial view is that an opportunity exists for additional emphasis on use of ADMs
 - E.g., through updates to the standards or implementation guidance, including Staff publications



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