Quality Review Schemes for Auditors
Their Potential for Sub-Saharan Africa

Sonia R. Johnson
RECENT WORLD BANK TECHNICAL PAPERS

No. 191 Frederiksen, Water Resources Institutions: Some Principles and Practices
No. 192 McMillan, Painter, and Scudder, Settlement and Development in the River Blindness Control Zone
No. 193 Braatz, Conserving Biological Diversity: A Strategy for Protected Areas in the Asia-Pacific Region
No. 194 Saint, Universities in Africa: Strategies for Stabilization and Revitalization
No. 195 Ochs and Bishay, Drainage Guidelines
No. 196 Mabogunje, Perspective on Urban Land and Land Management Policies in Sub-Saharan Africa
No. 197 Zymelman, editor, Assessing Engineering Education in Sub-Saharan Africa
No. 198 Teerink and Nakashima, Water Allocation, Rights, and Pricing: Examples from Japan and the United States
No. 199 Hussi, Murphy, Lindberg, and Brenneman, The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank
No. 200 McMillan, Nana, and Savadogo, Settlement and Development in the River Blindness Control Zone: Case Study of Burkina Faso
No. 201 Van Tuijl, Improving Water Use in Agriculture: Experiences in the Middle East and North Africa
No. 203 Cleaver, A Strategy to Develop Agriculture in Sub-Saharan Africa and a Focus for the World Bank
No. 204 Barghouti, Cromwell, and Pritchard, editors, Agricultural Technologies for Market-Led Development Opportunities in the 1990s
No. 205 Xie, Küffner, and Le Moigne, Using Water Efficiently: Technological Options
No. 207 Narayan, Participatory Evaluation: Tools for Managing Change in Water and Sanitation
No. 208 Bindlish and Evenson, Evaluation of the Performance of T&V Extension in Kenya
No. 209 Keith, Property Tax: A Practical Manual for Anglophone Africa
No. 210 Bradley and McNamara, editors, Living with Trees: Policies for Forestry Management in Zimbabwe
No. 211 Wiebers, Integrated Pest Management and Pesticide Regulation in Developing Asia
No. 212 Frederiksen, Berkoff, and Barber, Water Resources Management in Asia, Volume I: Main Report
No. 213 Srivastava and Jaffe, Best Practices for Moving Seed Technology: New Approaches to Doing Business
No. 214 Bonfiglioli, Agro-pastoralism in Chad as a Strategy for Survival: An Essay on the Relationship between Anthropology and Statistics
No. 215 Umali, Irrigation-Induced Salinity: A Growing Problem for Development and the Environment
No. 216 Carr, Improving Cash Crops in Africa: Factors Influencing the Productivity of Cotton, Coffee, and Tea Grown by Smallholders
No. 217 Antholt, Getting Ready for the Twenty-First Century: Technical Change and Institutional Modernization in Agriculture
No. 218 Mohan, editor, Bibliography of Publications: Technical Department, Africa Region, July 1987 to December 1992
No. 219 Cercone, Alcohol-Related Problems as an Obstacle to the Development of Human Capital: Issues and Policy Options
No. 220 Kingsley Ferguson, Bower, and Dice, Managing Urban Environmental Quality in Asia
No. 221 Srivastava, Tamboli, English, Lal, and Stewart, Conserving Soil Moisture and Fertility in the Warm Seasonally Dry Tropics
No. 222 Selvaratnam, Innovations in Higher Education: Singapore at the Competitive Edge
No. 223 Piotrow, Treiman, Rimon, Yun, and Lozare, Strategies for Family Planning Promotion
No. 224 Midgley, Urban Transport in Asia: An Operational Agenda for the 1990s
No. 225 Dia, A Governance Approach to Civil Service Reform in Sub-Saharan Africa
No. 226 Bindlish, Evenson, and Gbetibouo, Evaluation of T&V-Based Extension in Burkina Faso

(List continues on the inside back cover)
Quality Review Schemes for Auditors
Their Potential for Sub-Saharan Africa

Sonia R. Johnson

The World Bank
Washington, D.C.
Technical Papers are published to communicate the results of the Bank's work to the development community with the least possible delay. The typescript of this paper therefore has not been prepared in accordance with the procedures appropriate to formal printed texts, and the World Bank accepts no responsibility for errors. Some sources cited in this paper may be informal documents that are not readily available.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequence of their use. The boundaries, colors, denominations, and other information shown on any map in this volume do not imply on the part of the World Bank Group any judgment on the legal status of any territory or the endorsement or acceptance of such boundaries.

The material in this publication is copyrighted. Requests for permission to reproduce portions of it should be sent to the Office of the Publisher at the address shown in the copyright notice above. The World Bank encourages dissemination of its work and will normally give permission promptly and, when the reproduction is for noncommercial purposes, without asking a fee. Permission to copy portions for classroom use is granted through the Copyright Clearance Center, Inc., Suite 910, 222 Rosewood Drive, Danvers, Massachusetts 01923, U.S.A.

The complete backlist of publications from the World Bank is shown in the annual Index of Publications, which contains an alphabetical title list (with full ordering information) and indexes of subjects, authors, and countries and regions. The latest edition is available free of charge from the Distribution Unit, Office of the Publisher, The World Bank, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A., or from Publications, The World Bank, 66, avenue d’Iéna, 75116 Paris, France.

ISSN: 0253-7494

Sonia R. Johnson is an accounting education consultant to the Capacity Building and Implementation Division, Africa Technical Department, of the World Bank.

Library of Congress Cataloging-in-Publication Data

Johnson, Sonia R., 1958–
Quality review schemes for auditors : their potential for Sub-Saharan Africa / Sonia R. Johnson.
p. cm. — (World Bank technical papers, ISSN 0253-7494 ; 276)
Includes bibliographical references.
ISBN (invalid) 0-8213-3186-X
HF5667.J645 1995
657.45—dc20 95-1367
CIP
AFRICA TECHNICAL PAPERS

Technical Paper Series

No. 122 Dessing, Support for Microenterprises: Lessons for Sub-Saharan Africa
No. 130 Kiss, editor, Living with Wildlife: Wildlife Resource Management with Local Participation in Africa
No. 132 Murphy, Casley, and Curry, Farmers' Estimations as a Source of Production Data: Methodological Guidelines for Cereals in Africa
No. 135 Walshe, Grindle, Nell, and Bachmann, Dairy Development in Sub-Saharan Africa: A Study of Issues and Options
No. 141 Riverson, Gaviria, and Thriscott, Rural Roads in Sub-Saharan Africa: Lessons from World Bank Experience
No. 142 Kiss and Meerman, Integrated Pest Management and African Agriculture
No. 143 Grut, Gray, and Egli, Forest Pricing and Concession Policies: Managing the High Forests of West and Central Africa
No. 161 Riverson and Carapetis, Intermediate Means of Transport in Sub-Saharan Africa: Its Potential for Improving Rural Travel and Transport
No. 165 Kellaghan and Greaney, Using Examinations to Improve Education: A Study in Fourteen African Countries
No. 179 Speirs and Olsen, Indigenous Integrated Farming Systems in the Sahel
No. 181 Mining Unit, Industry and Energy Division, Strategy for African Mining
No. 188 Silverman, Public Sector Decentralization: Economic Policy and Sector Investment Programs
No. 194 Saint, Universities in Africa: Stabilization and Revitalization
No. 196 Mabogunje, Perspective on Urban Land and Urban Management Policies in Sub-Saharan Africa
No. 197 Zymelman, editor, Assessing Engineering Education in Sub-Saharan Africa
No. 199 Hussi, Murphy, Lindberg, and Brenneman, The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank
No. 203 Cleaver, A Strategy to Develop Agriculture in Sub-Saharan Africa and a Focus for the World Bank
No. 208 Bindlish and Everson, Evaluation of the Performance of T&V Extension in Kenya
No. 209 Keith, Property Tax: A Practical Manual for Anglophone Africa
No. 214 Bonfiglioli, Agro-pastoralism in Chad as a Strategy for Survival: An Essay on the Relationship between Anthropology and Statistics
No. 218 Mohan, editor, Bibliography of Publications: Technical Department, Africa Region—July 1987 to December 1992
No. 225 Dia, A Governance Approach to Civil Service Reform in Sub-Saharan Africa
No. 226 Bindlish, Evenson, and Gbetibouo, Evaluation of T&V-Based Extension in Burkina Faso
No. 232 Creightney, Transport and Economic Performance: A Survey of Developing Countries
No. 238 Heath, Land Rights in Côte d'Ivoire: Survey and Prospects for Project Intervention
No. 250 Rangeley, Thiam, Andersen, and Lyle, International River Basin Organizations in Sub-Saharan Africa
No. 251 Sharma, Rietbergen, Claude R. Heimo, and Jyoti Patel, A Strategy for the Forest Sector in Sub-Saharan Africa
No. 255 Mohan, editor, Bibliography of Publications: Technical Department, Africa Region, July 1987® to April 1994
**Discussion Paper Series**

No. 82 Psacharopoulos, Why Educational Policies Can Fail: An Overview of Selected African Experiences
No. 83 Craig, Comparative African Experiences in Implementing Educational Policies
No. 84 Kiroa, Implementing Educational Policies in Ethiopia
No. 85 Eshiwani, Implementing Educational Policies in Kenya
No. 86 Galabawa, Implementing Educational Policies in Tanzania
No. 87 Thelejani, Implementing Educational Policies in Lesotho
No. 88 Magalula, Implementing Educational Policies in Swaziland
No. 89 Odaet, Implementing Educational Policies in Uganda
No. 90 Achola, Implementing Educational Policies in Zambia
No. 91 Maravanyika, Implementing Educational Policies in Zimbabwe
No. 132 Fuller and Habte, editors, Adjusting Educational Policies: Conserving Resources while Raising School Quality
No. 147 Jaeger, The Effects of Economic Policies on African Agriculture: From Past Harm to Future Hope
No. 175 Shanmugaratnam, Vedeld, Massige, and Bovin, Resource Management and Pastoral Institution Building in the West African Sahel
No. 181 Lamboray and Elsmendorf, Combating AIDS and Other Sexually Transmitted Diseases in Africa: A Review of the World Bank’s Agenda for Action
No. 184 Spurling, Pee, Mkamanga, and Nkwanyana, Agricultural Research in Southern Africa: A Framework for Action
No. 211 Weijenberg, Dioné, Fuchs-Carsch, Keré, and Lefort, Revitalizing Agricultural Research in the Sahel: A Proposed Framework for Action
No. 219 Thillairajah, Development of Rural Financial Markets in Sub-Saharan Africa
No. 230 Saito, Raising the Productivity of Women Farmers in Sub-Saharan Africa
No. 231 Bagchee, Agricultural Extension in Africa
No. 234 Keck, Sharma, and Feder, Population Growth, Shifting Cultivation, and Unsustainable Agricultural Development: A Case Study in Madagascar
No. 242 Biggs, Moody, van Leeuwen, and White, Africa Can Compete!: Export Opportunities and Challenges for Garments and Home Products in the U.S. Market
No. 251 Aryeeetey, Baah-Nuakoh, Duggleby, Hettige, and Steel, Supply and Demand for Finance of Small Enterprises in Ghana
No. 252 Pinto and Mrope, Projectizing the Governance Approach to Civil Service Reform: An Environment Assessment for Preparing a Sectoral Adjustment Loan in the Gambia
No. 258 Duncan and Muvandi, The Rate of Fertility Decline in Botswana and Zimbabwe
No. 259 Scribner, Policies Affecting Fertility and Contraceptive Use: An Assessment of Twelve Sub-Saharan Countries
No. 260 Popiel, Financial Systems in Sub-Saharan Africa: A Comparative Study
No. 265 Gopal and Marc, World Bank-Financed Projects with Community Participation: Procurement and Disbursement Issues
No. 266 Venkatesan, Seed Systems in Sub-Saharan Africa: Issues and Options
No. 271 Parker, Riopelle, and Steel, Small Enterprises Adjusting to Liberalization in Five African Countries
No. 274 Marc, Graham, Schacter, and Schmidt, Social Action Programs and Social Funds: A Review of Design and Implementation in Sub-Saharan Africa
No. 280 Cleaver and Donovan, Agriculture, Poverty, and Policy Reform in Sub-Saharan Africa
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>vii</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>viii</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>ix</td>
</tr>
<tr>
<td>Abstract</td>
<td>xi</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>1</td>
</tr>
<tr>
<td>Accounting and Auditing</td>
<td>1</td>
</tr>
<tr>
<td>Quality Review Schemes</td>
<td>1</td>
</tr>
<tr>
<td>Objective of the Report</td>
<td>2</td>
</tr>
<tr>
<td>Pilot Quality Reviews</td>
<td>2</td>
</tr>
<tr>
<td>Benefits and Risks</td>
<td>3</td>
</tr>
<tr>
<td>Recommendations</td>
<td>3</td>
</tr>
<tr>
<td>1. Accounting and Auditing in Sub-Saharan Africa</td>
<td>5</td>
</tr>
<tr>
<td>Accounting and Auditing Standards</td>
<td>5</td>
</tr>
<tr>
<td>Private Sector Accounting and Auditing</td>
<td>6</td>
</tr>
<tr>
<td>Public Sector Accounting and Auditing</td>
<td>7</td>
</tr>
<tr>
<td>Public Sector Auditing</td>
<td>8</td>
</tr>
<tr>
<td>Interest in Development of the Accounting Profession</td>
<td>10</td>
</tr>
<tr>
<td>Education and Training</td>
<td>11</td>
</tr>
<tr>
<td>Summary</td>
<td>13</td>
</tr>
<tr>
<td>2. Quality Review</td>
<td>15</td>
</tr>
<tr>
<td>What is a Quality Review?</td>
<td>15</td>
</tr>
<tr>
<td>The Purpose of a Quality Review</td>
<td>15</td>
</tr>
<tr>
<td>Quality Review Schemes</td>
<td>15</td>
</tr>
<tr>
<td>Implications for SSA</td>
<td>21</td>
</tr>
<tr>
<td>Summary</td>
<td>22</td>
</tr>
<tr>
<td>3. Adaptation to SSA - the Results of Two Pilot Review Schemes</td>
<td>25</td>
</tr>
<tr>
<td>Objectives and Format of Pilots</td>
<td>25</td>
</tr>
<tr>
<td>Countries</td>
<td>25</td>
</tr>
<tr>
<td>Reviewers</td>
<td>26</td>
</tr>
<tr>
<td>Pre-Pilot Activities</td>
<td>26</td>
</tr>
<tr>
<td>The Pilots</td>
<td>27</td>
</tr>
<tr>
<td>The Tanzania Pilot Quality Review</td>
<td>28</td>
</tr>
<tr>
<td>The Senegal Pilot Quality Review</td>
<td>31</td>
</tr>
</tbody>
</table>
Contents

Implications for SSA .................................................. 33
Summary ................................................................. 35

4. Conclusions .......................................................... 37

Benefits ................................................................. 37
Risks and Problems .................................................. 38
Next Steps ............................................................... 38

Annexes

A. International Federation of Accountants, Statement of
   Policy of Council Assuring the Quality of Audit and related Services ........ 41
B. Review Schemes .................................................... 49
C. Reviewers ........................................................... 55
D. The Review Process ................................................ 59
E. Education and Reaction of Members .................................. 69
F. Tanzania Pilot Quality Review
   Guide for Auditors: Your Questions Answered ......................... 75
G. Pilot Quality Review Questionnaire .................................. 79
H. Quality Review Scheme Checklist .................................... 87

References .............................................................. 89

Boxes

1.1 Public Sector Accounting in Uganda .................................. 8
1.2 The Auditor General's Department in Malawi ......................... 9
1.3 The Tanzania Audit Corporation .................................... 10
1.4 The Accountancy Profession in Sierra Leone ....................... 12
2.1 The Society of Accountants in Malawi .............................. 18

Tables

2.1 Purpose of Quality Review Schemes ............................... 17
2.2 Quality Review Scheme Reviewers, Benefits and Reaction .......... 20
2.3 Review Fees ........................................................ 21
Poor financial management in Sub-Saharan Africa has been identified as a major obstacle to the development of equitable economic growth. Good accounting and auditing systems and qualified personnel to manage them are necessary if there is to be effective financial decision-making and monitoring of fiscal development and public finance. An important element of governance is transparency in financial accountability. Strengthening the capacity of countries to manage their own financial affairs will facilitate improved governance.

The accounting and auditing profession in Sub-Saharan Africa is weak. There is a shortage of accountants at all levels; accounting and auditing standards are not developed or monitored; accounting and auditing training is inadequate, especially in the public sector; and there is a lack of accountability. The role of the auditor thus becomes increasingly important. Audit reports should provide an impartial, independent, expert opinion upon which management, shareholders, and other interested parties can rely. They should indicate whether the accounts on which the reports are made are reliable, and if not, they should identify issues not adequately represented in the financial statements.

This paper assesses existing schemes for reviewing the quality of the work of auditors, describes the results of two pilot tests in Tanzania and Senegal, and recommends that similar schemes be introduced in Sub-Saharan Africa. Existing review schemes have been effective in helping improve auditing quality and capacity by identifying problems and encouraging firms to correct substandard practices. The International Federation of Accountants, which represents some 111 bodies worldwide, has issued a Statement of Policy encouraging its member bodies to introduce review schemes. A number of countries, including Malawi, South Africa, Tanzania, and Zimbabwe are in the process of introducing their own review schemes. The introduction of such schemes in Sub-Saharan Africa will help ensure that auditors are competent. The ultimate development goal is capacity building through, in this instance, improvement of the capacity of auditors in Sub-Saharan Africa. The introduction of a review system is an important step towards this objective.

Kevin M. Cleaver
Director
Technical Department
Africa Region

October 12, 1994
In preparing this report, the author benefited from the contributions of the following individuals. From the World Bank: A. Kennefick and E. Daffern, Peer Reviewers; C. Lyle, J. Makanda, and M. Sabai, who undertook the pilot reviews; J.A Akinlotan, R.A. Andersen, J.E. Graves, A. Heron, P. Landell-Mills, A. Ravat, and M. Stevens who provided helpful comments on this and earlier drafts of the report; A.S. Bhandari, L.V. Domingo, J.R. Edwards, B. Falconer, M. Pulgar-Vidal, D. Radel, and S. Singh, who provided their experience of auditors in SSA; and S. Ngo-Bodog who kindly provided high-quality desktop publishing expertise. From outside the Bank special thanks are given to: D. Atherton (AICPA), N. Baldwin (HKSA), G. Dickinson (ICAO), J. Flexer (CGAA), R. Fryer (DRT International), J. Holden (JMU), P. Gray (NZSA), M. McKenna (ASCPA), E. McMahon (ICAI), J.M. O’Neill (SOCAM), G.A. Rippey (The US Department of Education), H. Youngs and R. Midgeley (ACCA) who provided details of their review schemes; A. Dadd (PW), P. Dean (UN DDSMS), and J. Gruner (IFAC) who provided especially helpful comments; P. Randolph (Collins Barrow) who assisted with the pilot review in Tanzania; and L.S.L. Utouh and D. Malonga (NBAA) who provided generous support for the pilot review in Tanzania.
Abbreviations

ABWA  Association of Accountancy Bodies in West Africa
ACCA  Chartered Association of Certified Accountants
ACPS  Association des Comptables Professionnels du Sénégal
AICPA  American Institute of Certified Public Accountants
ARC   Audit Registration Committee
ASB   Accounting Standards Board
ASCPA Australian Society of Certified Practising Accountants
C&AG  Controller and Auditor General
CART  Committee Appointed Review Team
CGAA  Certified General Accountants Association
CICA  Canadian Institute of Chartered Accountants
CPA   Certified Public Accountant
CPD   Continuing Professional Development
DPMT  Department of Personnel and Management Training
DTI   Department of Trade and Industry
EC    European Community
ECSAFA Eastern Central and Southern Africa Federation of Accountants
FAP   Financial Accountability Program
FIDEF Fédération Internationale des Experts Comptables
HKSA  Hong Kong Society of Accountants
IASC  International Accounting Standards Committee
ICAEW Institute of Chartered Accountants in England and Wales
ICAA  Institute of Chartered Accountants in Australia
ICAI  Institute of Chartered Accountants in Ireland
ICAO  Institute of Chartered Accountants of Ontario
IDA   International Development Association
IFAC  International Federation of Accountants
INTOSAI International Organization of Supreme Audit Institutions
IPAM  Institute of Public Administration and Management
ISA   International Standard on Auditing
JMU   Joint Monitoring Unit
MAB   Malawian Accountants Board
NBAA  National Board of Accountants and Auditors
NZSA  New Zealand Society of Accountants
OCAG  Office of the Controller and Auditor General
ODA   Overseas Development Administration
OIG   Office of the Inspector General
ONEEAS Ordre National des Experts et Evaluateurs du Sénégal
PAEC  Public Accountants Examinations Council
PCPS  Private Companies Practice Section
QRP   Quality Review Program
RAB   Report Acceptance Body
RPB   Recognized Professional Body
RSB   Recognized Supervisory Body
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAICA</td>
<td>South African Institute of Chartered Accountants</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities Exchange Commission</td>
</tr>
<tr>
<td>SECPS</td>
<td>SEC Practice Section</td>
</tr>
<tr>
<td>SOCAM</td>
<td>Society of Accountants in Malawi</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>TAC</td>
<td>Tanzania Audit Corporation</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
</tbody>
</table>
Abstract

This paper describes the status of accounting and auditing in Sub-Saharan Africa (SSA), and the importance of having an auditing profession which is seen to maintain the highest standards. The paper assesses existing schemes for reviewing the quality of the work of auditors, describes the results of two pilot tests in Tanzania and Senegal, and recommends that similar schemes be introduced in SSA as a way to maintain standards.
Executive Summary

Weakness in financial management capability affects the progress of both the public and private sector in Sub-Saharan Africa (SSA). Inadequate accounting and auditing has hindered the development of financial decision-making and led to ineffective monitoring of fiscal development and imbalances in public finances. Numerous studies of accounting and auditing in SSA have concluded that sustained economic growth cannot be maintained in the absence of a sound accounting and auditing infrastructure and an appropriately trained accounting and auditing profession. While recognizing that the work of the accountant is just as important as the work of the auditor, this report concentrates on one aspect of financial management - the role of the external auditor.

Poor accounting and weak internal audit make the role of external audit very important. Audit reports should provide an independent, expert opinion upon which management, shareholders, employees, and other interested parties can rely. Reports should indicate whether the accounts are reliable, and if not, they should identify issues not adequately represented in the financial statements. Where audit reports provide such warnings they should do so in clear and unambiguous terms, so that the reader can understand the nature and the financial implications of the problems.

Accounting and Auditing

Often, external auditors have to be brought in to audit the accounts of World Bank projects because of lack of in-country capacity and capability among auditors in SSA. Most of the public sector auditing entities in SSA are understaffed, and many do not have sufficiently skilled personnel to be able to carry out their duties adequately. In addition, auditing expertise is often restricted to undertaking compliance auditing. Few government auditors have the necessary skills to undertake value-for-money or computer audits, or to audit financial statements.

The public sector plays an important role in SSA. Since it controls a large part of the region’s wealth, the need for well-developed financial systems and personnel to manage them is extremely important. Until recently, there has been little government interest in developing the accounting and auditing profession and, in particular, in improving public sector accounting and auditing in SSA. Although there are still some countries in SSA where there is a reluctance on the part of government to improve accounting and auditing, countries are increasingly seeing the benefits of sound governmental accounting and auditing systems. An important element of governance is transparency in financial accountability and management of resources. Strengthening governmental capability to manage its financial affairs will contribute to improved governance.

Quality Review Schemes

The concept of review of auditors first arose in the 1960s and 1970s in the United States when there was widespread scrutiny of the auditing profession. In 1969, the American Institute of Certified Public Accountants (AICPA) recommended that a scheme be set up to provide auditing firms with an opportunity to have objective cross-reviews of their auditing work. Since then Australia, Canada, Hong Kong, Ireland, New Zealand, and the United Kingdom, and more recently Malawi, South Africa and Zimbabwe have decided to introduce similar schemes. The main purpose of a review scheme is to test whether auditors are doing their jobs properly and are observing high professional standards. Independent reviews of audit and accounting
practices have been shown to be effective in helping firms identify and correct substandard practices.

The International Federation of Accountants (IFAC), which has over 111 member bodies in 81 countries, encourages the introduction of reviews. The Council of IFAC considers that member bodies need to demonstrate that there are adequate self-regulatory programs in place to provide reasonable assurance that auditors adhere to the highest standards in performing audit and related services. In July, 1992, its Council issued a Statement of Policy of the Council; ‘Assuring the Quality of Audit and Related Services’ (see Annex 1). The Statement asks that over a period of time IFAC member bodies: (a) adopt or develop quality control standards and guidance; (b) develop quality assurance programs; and (c) require firms to make improvements to quality control policies and procedures when necessary. The concept of review is familiar to some of the firms in SSA, because large international firms of auditors already have systems of peer review in which they are reviewed by partner firms. In addition, the Society of Accountants in Malawi (SOCAM) has undertaken a peer review of its members, and the South African Institute of Chartered Accountants (SAICA) and the Institute of Chartered Accountants of Zimbabwe have decided to introduce review schemes.

Objective of the Report

This report examines review schemes already operating, describes their strengths and working methods, and assesses how they could be adapted for use in a scheme to review the quality of auditors in SSA. The main objectives of such a scheme would be to:

- Identify weaknesses in the audit process, which the auditor, professional body or the Bank could help rectify.
- Help ensure that the auditors are competent and independent.
- Help ensure the reliability of financial statements.
- Provide the basis for a model review scheme which could be adopted throughout SSA.
- Help national accounting bodies introduce their own review schemes.

A long-term goal would be for SSA accounting bodies to be able to administer their own review schemes, on a national or regional basis. The ultimate developmental goal of the introduction of a review scheme however, would be the improvement of the capability of African auditors.

Pilot Quality Reviews

The report also describes the results of two pilot quality reviews in Tanzania and Senegal, which took place in March and May, 1993 respectively. The purpose of these pilots was to:

- Assess the reaction of government and private sector auditors to the concept of auditor reviews.
- Ascertain whether the review process that has been introduced in other countries is appropriate for use in Sub-Saharan Africa.
- Iron out any practical difficulties in the review process.

The pilots reviewed government and private auditors in Tanzania and Senegal. They were carried out by Bank staff in conjunction with a consultant with specific experience of undertaking quality reviews. The pilot quality reviews involved: (a) an examination of the quality controls in place in
Executive Summary

each audit entity and firm; (b) a review of a sample of randomly selected audit files to check compliance with national accounting and auditing standards; and (c) a wrap-up meeting to discuss the review findings. The reaction received was extremely favorable, and all audit entities and firms reviewed welcomed the pilot quality reviews.

While most of those reviewed were in compliance with national accounting and auditing standards, the reviews found examples where they had not been observed. These findings were discussed with those concerned and were followed up by a confidential written report. Apart from the auditors, who received feedback on their work, major beneficiaries of the pilot quality review were the national accounting bodies. The pilots highlighted gaps in the coverage of national accounting and auditing standards, and identified the areas in which the national body should be providing assistance to its members. On the basis of this information the national accounting bodies will be able to establish a program to improve the quality of their members.

Benefits and Risks

The auditor would benefit through receiving expert advice on how to improve operations from the reviewers. The national accounting bodies would receive guidance on how to implement their own review schemes, and would have a model which they could adapt for their own use. For Bank Operations, the introduction of a review scheme would provide an objective way to identify any technical assistance the Bank could provide to the accounting and auditing profession or public sector accountants and auditors to improve the quality of their service. In addition, the Bank could use a review scheme as a step toward improving governance of its client countries.

Although both pilots were warmly received by the auditors reviewed, there may be some risks with the introduction of a review scheme. Some countries will see such a review as threatening, others may be offended and refuse to participate. The results of the reviews could also raise confrontations with governments that the Bank might wish to avoid. Lessons learned from the pilot show that these risks can be minimized through involving the auditors and the national accounting bodies at all stages of the review process. The process itself should be participatory, the national accounting bodies should be invited to join the review teams, and there should be open dialogue between the reviewers and the auditor.

Recommendations

The pilots highlighted the many benefits to be obtained from quality reviews, and the large part they can play in helping improve the capability of both public and private sector auditors. Based upon the success of the pilot quality reviews in Tanzania and Senegal this report recommends the introduction of a model review scheme to assess the quality of auditors in SSA.
Chapter 1: Accounting and Auditing in Sub-Saharan Africa

In many countries in SSA, accounting and auditing performance has been unsatisfactory in recent years. This is due primarily to a critical shortage of accountants and auditors at all levels, and also to the lack of recognized and accepted accounting and auditing standards, and the inadequacy of accounting development. Given that resources are limited in Africa it is vital that they be put to the best use, and not lost through poor decision-making and weak control. Increasingly, accounting is providing the basis for performance evaluation, and the development of the accounting and auditing profession is important in achieving this. The throughput of accounting and auditing professionals is extremely slow, and there are more vacancies than qualified personnel. The lack of accountants and auditors affects the public sector particularly which is unable to offer an adequate remuneration package to attract or retain qualified personnel.

Accounting and Auditing Standards

The tools and techniques of financial decision-making, of performance measurement, of internal control procedures, and the cultivation of an appropriate ethical outlook (including the need for accountability) need much more emphasis. The use of accounting and auditing standards in achieving this is very important. Auditors are expected to apply generally accepted auditing standards that have been prescribed by a country’s law, or that have been adopted by public accountants or associations of public accountants in the country concerned, together with generally accepted international standards on auditing where feasible.

In 1990, the UN Centre on Transnational Corporations, the International Labour Office and the World Bank participated in a survey on accounting needs in Africa (UN 1991a). The survey found that the development of national accounting and auditing standards was not given a high priority. Although most survey respondents realized the importance of accounting and auditing standards, they considered the most immediate need to be the education and training of students. They were of the opinion that until more resources became available, the adoption of international standards was the most appropriate course of action.

Some countries have chosen to modify International Accounting Standards Committee (IASC) standards to suit their own needs. The extent of modification however, varies between countries. For example, in Zimbabwe accounting and auditing standards and guidelines are reviewed by the Accounting Practices Board, an independent body consisting of representatives of the profession, government and the business community. The Board is responsible for making recommendations as to which IASC and IFAC pronouncements should become Zimbabwe standards. Compliance with standards is mandatory, and they apply to parastatals and local authorities as well as all businesses. The Institute monitors the extent of compliance with these standards.

In Mauritius, the government, realizing the importance of regulating standards, established the Accounting and Auditing Standards Committee in 1989. The Committee formulates and publishes accounting and auditing standards and guidelines, and is working on a set of standards, using the U.K. Accounting Standards Board (ASB) and IASC pronouncements as a guide. Having standards adapted to local needs has in many countries
encouraged compliance, because accountants and auditors understand why the standards have been introduced, and as a result have been active in their implementation. This however, is the exception rather than the rule. Too infrequently are standards written especially for the particular country environment, and the use of IASC accounting standards and IFAC auditing standards may not be appropriate given the socio-political, economic, and cultural values within a country. Even in countries where there are accounting and auditing standards, most are voluntary, and there is little monitoring of compliance. It is important that there be a greater effort on the part of the African bodies to encourage the application of and compliance with standards either through the adoption of international accounting and auditing standards, or preferably through the development of country or regional standards. Non-compliance with standards and lack of monitoring may eventually discredit the accounting and auditing profession in SSA.

Private Sector Accounting and Auditing

While some countries have little accounting and auditing capacity, the private sector in SSA is in general reasonably well developed. A number of countries have offices of the large international firms and many have established indigenous firms. Through offering good remuneration packages, private sector auditing firms are able to attract and retain the better qualified personnel. Weaknesses, however, may arise with the small firms which do not have the backing of an international firm, or the finances of a large indigenous firm. For these firms, it may be financially difficult to keep up-to-date with new developments. Many of these small firms audit owner-managed companies, and although the companies may not require a detailed analysis of their financial position, the audited accounts often form the basis of government taxation assessments. As such, the quality of these accounts is important for governments who may rely on them for determining taxation liability.

Most of the national accounting bodies in SSA are small. Their priority is to set examinations, and they have little time to organize continuing professional development courses (CPD) for their members. There is insufficient monitoring of accountants and auditors to ensure that they comply with accounting and auditing standards, and as a result, private sector accountants and auditors may be failing to maintain standards. A study undertaken on behalf of the United Kingdom Overseas Development Administration (ODA), which reviewed a sample of Tanzania financial statements, noted that some entities were not complying with Tanzanian or International Accounting Standards (ODA 1991).

Independence

The International Standard on Auditing 'Basic Principles Governing an Audit (ISA3) states: "The auditor should be straightforward, honest and sincere in his (sic) approach to his professional work. He must be fair and must not allow prejudice to bias or override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity." Independence is the cornerstone of the auditing profession, and without it an auditor cannot be determined to be reliable.

Although auditors may be technically proficient, and appear to be independent, they may not be impartial. Determining whether an auditor is independent can be just as difficult as ascertaining competence. Many of the countries in SSA are small, and the number of qualified auditors is low. These auditors may be dependent upon the government or certain parastatals for a sizeable part of their income, or may have close family relationships with powerful political figures. In some countries, there may not be a tradition of independent
auditors. As the auditor’s opinion and report is one on which the owners and management of the entity, and other interested parties rely, the use of independent auditors of a professional caliber capable of delivering such an opinion is very important.

Public Sector Accounting

The public sector includes government ministries and departments, local authorities, and parastatals. Effective government accounting and auditing is important to the smooth running of the public sector. With few exceptions however, performance does not measure up to the statutory requirements. A number of countries have not published audited accounts for more than five years. In Lesotho and Uganda, accounts were not presented to the Auditor General for eight years. Those that are more up-to-date are full of inaccuracies and rarely meet the statutory deadline, which is usually six to nine months after the close of the financial year. A study of government financial management in developing countries undertaken by the UN found government accounting to be uncoordinated. Multiple accounting systems exist in the ministries of finance, central banks, spending agencies and field offices, and a large amount of time is spent attempting to reconcile the data (UN 1991 b). Failure to supply timely and accurate data holds up the preparation of essential financial reports. As a result, important monthly and annual reports upon which governments rely to make decisions are often very late and unreliable. Government accounting is seen as a routine task which is carried out by low-level clerical staff. Accounting is not seen as an effective management tool which can be used to monitor, forecast and manage the public purse.

Internal controls are weak, and government budgets, in particular, are often meaningless. Spending ministries receive little guidance from the Ministry of Finance to help them adjust estimated expenditures for inflation or control expenditure. Budgets are often drawn up without reference to previous years’ actual expenditures and do not represent the priorities of the line ministries. Parastatal financial management is also weak in many countries, and the parastatals’ sponsoring ministries may lack the ability to oversee their financial affairs.

Lack of Appropriately Trained Staff

The needs of the public sector are no different from those of the private sector; adequate accounting systems and procedures, and trained staff. Apart from the Lusophone countries, most countries in SSA have accounting and auditing regulations, but lack the staff to execute them. Attracting and retaining appropriately trained, qualified, and motivated staff is a significant problem in the public sector. This applies to government ministries and to the vast majority of public enterprises or parastatal organizations. Although poor compensation is a principal cause, lack of relevant training and recognition for public sector work contributes to the problem.

Most government accounting and auditing cadres are severely understaffed, and are unable to retain qualified accountants and auditors who leave for the private sector. The shortage of qualified accounting and financial management personnel in the government ministries or public enterprises results in late publication of annual accounts, unrealistic budgets and inadequate monitoring and control over operations and cash flow. Better trained staff however, is only one way to improve public sector accounting. There is also a need for accounting systems and procedures to be improved, accounting standards and guidelines to be implemented, and government expenditure to be adequately controlled. Without better trained staff however, governments will not have the expertise to introduce new systems or procedures, as the Uganda example in Box 1.1 illustrates.
Quality Review Schemes for Auditors in SSA

Box 1.1: Public Sector Accounting In Uganda

The situation in Uganda is typical of the problems facing many governments in Africa, and demonstrates the task governments face if they wish to improve their accounting and auditing systems and procedures. Government accounting in Uganda is a common cadre. Recruitment and retention of accounting staff is difficult, and there are a number of vacancies. There are few fully qualified accountants in the government, and the majority of staff hold only secondary school qualifications. Most of the staff have received neither formal classroom nor adequate on-the-job training. As a result, many staff are not familiar with the requirements of their jobs. This results in delays and inefficiencies in the production of accounts.

For some years, the Government of Uganda has been conscious of the lack of skilled manpower, and with donor assistance has been able to train some staff. The numbers trained however, have been small and although the courses provided the individuals concerned with various skills, they did not develop in-country teaching expertise. Currently, little in-service training is offered. There are no full-time trainers, and staff are taken out of their jobs to teach part-time. The Treasury realizes that, without increased relevant training, staff cannot perform their existing jobs well and will not have the necessary skills to develop or implement new systems. Assistance to overcome these problems is being provided to the Treasury under an IDA-financed Economic and Financial Management project.

Public Sector Auditing

Public sector auditing in SSA includes government auditors and state auditing corporations. Depending upon their mandates, these organizations may be statutorily responsible for the audit of government ministries, departments, and parastatals. The role of the government auditor is to verify the adequacy of government accounting records, procedures and reports, and it is vital for the government auditor to maintain high standards. Even where there are audited accounts, they often deal with trivial matters. For example, audited reports may concentrate on small amounts of money unaccounted for, without tackling the more important aspects of lack of internal control. The status of the government auditor also may be low. Often the head is not a qualified accountant, and it is not unusual for there to be no qualified accountants working as government auditors. Many countries are struggling to undertake simple compliance auditing, and the vast majority cannot contemplate undertaking anything more advanced. Most government auditors lack the skills to be able to undertake computer or value-for-money audits. The example of Malawi illustrated in Box 1.2 is typical of that facing most public sector auditing entities in SSA.
Box 1.2: The Auditor General’s Department in Malawi

In 1990, Malawi’s Department of Personnel and Management Training (DPMT) completed a job inspection study of the Auditor General’s Department. The study was carried out as part of a program of inspections of all ministries and departments in the Civil Service. The terms of reference for the audit review were to examine the work actually being carried out by the Auditor General’s Department to determine and report on whether: the work being done was necessary for the proper discharge of essential functions; the organization structure was the most economical and consistent with efficiency; the number of posts were adequate, but not excessive to carry out the necessary work efficiently; and the grading of posts was consistent with Civil Service grading standards. The study was carried out through means of questionnaires, interviews, and a review of DPMT statistics.

The study recommended the creation of forty-two new posts to enable the audit program to be steadily extended. The inspection team was concerned about the low number of qualified audit staff. With expansion of the audit function, particularly of parastatals, auditors are coming into contact with more sophisticated accounting systems, especially computerized accounts. The study identified the need for advanced training so that the auditors are better equipped to cope with the ever increasing demands of the accounting world. The inspectors also reported that the Department should be attempting to recruit better qualified staff with relevant diplomas and degrees.

Independence

Normally, the independence of a government auditor is not questioned if the auditor’s position is established under constitutional or legal provisions designed to assure independence. In addition to government auditors, some countries, including Ethiopia and Tanzania, have state auditing corporations which are statutorily responsible for the audit of state enterprises. The situation of state auditing bodies has caused some concern for the Bank, in that while the independence of these bodies may be apparent, their impartiality has been difficult to judge. The main argument to support the view that they are independent is that their position as a parastatal gives them greater independence than a private auditing firm because they are not dependent upon fees. The counter argument is that political pressure may be brought to bear on the auditors when matters of government policy are involved and thereby reduce their impartiality. It is a difficult situation as the Tanzania example in Box 1.3 illustrates.
Box 1.3: The Tanzania Audit Corporation

Before the Arusha Declaration, the statutory audits of most companies and the few parastatals were carried out by private firms of accountants. Following the Declaration, the need for the government to ensure proper management of its funds invested in parastatals, led to the establishment of a state auditing body the Tanzania Audit Corporation (TAC), under the Tanzania Audit Corporation Act of 1968. TAC lies functionally under the Ministry of Finance, Economic Affairs and Planning, and is governed by a Board, whose Chief is the Director General. TAC is required to undertake the audit of all parastatals, and currently has over 400 clients. From the early 1970s, TAC has received substantial technical assistance from the Swedish International Development Agency, and has been able to upgrade its technical skills.

A study of the accounting and auditing profession in Tanzania financed by the ODA (ODA 1991) reviewed a sample of the work of TAC. The review identified a number of problems with both short form and management reports: short form reports are not qualified when serious problems are raised in the management report; qualifications in short form reports may be ambiguous; management reports are too long and important points are buried in detail. Previous studies have also questioned the independence of TAC when matters of government policy are involved.

TAC rigorously defends its independence, and maintains that it has made a significant contribution to the improvement of financial management in Tanzania, through assisting with accounting problems, drawing attention to weaknesses through its audit reports, and helping to devise a consistent financial statement format. TAC has also suspended staff for accepting travel expenses from a client. TAC encourages its staff to gain professional qualifications as it wishes to uphold professional standards. The annual report of the Director of TAC is direct, and seeks to emphasize the integrity of the office.

Interest in the Development of the Accounting Profession

Donor Interest

Donor assistance has been instrumental in developing accounting and auditing in Africa. Where donor assistance has been given for a sustained period, projects have been particularly effective. For example, in Lesotho, the Institute of Accountants and the Centre for Accounting Studies were founded in 1977 and 1979 respectively, with assistance from the Irish Bilateral Aid Program. The Irish government is still supporting the Centre, because it realizes the importance of continuing assistance until the Centre can be successfully administered by local staff. Where donor assistance has been given for short periods, governments and colleges with limited resources have not been able to sustain the objectives of the project. For example in Malawi, UNDP helped establish the Accountant General’s Training School in 1983 which provided experts to design course programs and write study manuals. During implementation the School was relatively successful. Since the project finished in 1987 however, the School has been struggling to survive. The Government of Malawi does not have sufficient funds to run the School as was originally intended; study manuals have not been updated, and the number of courses offered has been reduced. This has resulted in some new entrants to the accounting cadre having to wait for up to two years before undergoing basic induction training. This lack of training seriously affects the quality of government accounting in Malawi.

Government Interest

Another problem is that public accountability is not accorded a high priority
by some governments. This often leads to low morale among financial management personnel. One main influence on the development of the accounting profession is the interest of government. The profession needs the backing of government if accounting is to improve, both in the private and public sectors. In certain countries there is little official emphasis on accountability, and accounting is not highly regarded. In many countries, even where there is an accounting body, there is no legislation controlling who can undertake an external audit and anybody can call themselves an auditor, as for example in the Congo. This situation is not conducive to promotion of the profession. Lack of concern with financial performance in the public sector inevitably reduces the motivation to achieve performance, or even to report adequately.

In other countries, the increasing interest of governments is helping the profession develop, and is creating a demand for accountants and auditors. In Swaziland, the Minister of Finance sees the development of the profession as fundamental to the economic growth of the country. The 1985 Accountants’ Act reflects the recognition of the Government of Swaziland of the importance to the country of a mature and effective accounting profession. It appreciates that new commercial and industrial initiatives will be greatly enhanced or severely impeded according to the level of accountancy knowledge and proficiency which can be made available.

Education and Training

Poor education is a stumbling block to the development of the accounting and auditing profession. The low level of technical accounting and auditing competence is both a quantitative and qualitative problem. Many countries have their own national accounting bodies but the establishment of a body does not necessarily mean that the accounting profession is thriving. Establishing an effective body takes time and money, and many countries (especially the smaller ones) are struggling to develop their accounting bodies as the example of Sierra Leone in Box 1.4 illustrates. Strong national accounting bodies are required who can provide leadership to ensure the application of sound accounting and auditing standards, to regulate the ethical standards of accountants and auditors, and to set examinations for students. There is the related need for good colleges to prepare students for these examinations and for employers willing to provide staff with appropriate on-the-job training.

Training

On-the-job training is important. Learning about the theory of accounting and auditing is limited if a student is not shown how to put it into practice. Often, skilled training and proper supervision are lacking, which results in trainees not being able to carry out their jobs adequately. Apart from training offered to students working in accounting and auditing firms, training is not comprehensive. There are no clear career paths in companies or government departments and students are not able to gain a broad range of experience. There must be monitoring of training by the professional bodies, because employers are not always aware of the advantages of proper training programs.

The International Standard on Auditing ‘Basic Principles Governing an Audit’ states: "The audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing. The auditor requires specialized skills and competence which are acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination, and practical experience under proper supervision. In addition, the auditor requires a continuing awareness of developments including relevant
Box 1.4: The Accountancy Profession in Sierra Leone

The situation in Sierra Leone is typical of a number of countries in SSA which are still struggling to establish an effective professional body. In 1960, the voluntary Association of Accountants of Sierra Leone was formed to regulate and advance the interests of the accountancy profession in Sierra Leone. In 1988, the government of Sierra Leone formally recognized the Institute and passed the Institute of Chartered Accountants of Sierra Leone Act. Under the Act the Institute is responsible for: conducting examinations; supervising training contracts; establishing a register of practicing accountants; maintaining professional standards; and disciplining members. Despite its statutory recognition however, the Institute is still dependent upon volunteers to run the Institute and has no permanent office. Such a situation restricts what the Institute can accomplish.

The Institute realizes that the accountancy profession will not develop in Sierra Leone until accountancy education and training is more readily available. None of the fifty-one members of the Institute qualified in Sierra Leone; all studied overseas for their qualifications. The Institute of Public Administration and Management (IPAM) has introduced courses for accounting technicians, and has started courses for Levels 1 and 2 of the U.K. Chartered Association of Certified Accountants (ACCA) examinations. There are no courses for the final level of the ACCA examinations. The Institute would like IPAM to offer all levels so that students do not have to go overseas to study. IPAM however, is heavily dependent upon part-time accountancy lecturers and does not have sufficient staff to be able to expand its accountancy courses.

The Institute is facing an up-hill battle to gain recognition. A recent study undertaken on behalf of the British Council (British Council 1992) found that the concept of accountability is alien to a large section of the business community, and that the regulatory framework of the country needs to be updated. The Institute is not consulted by government or the business community for its views. If the accountancy profession is to develop in Sierra Leone it needs to be strengthened. Adequate staffing is a necessary step for the Institute to become an effective organization for its members and students, but the Institute lacks the finances to provide this. The Institute needs donor assistance. Without it, it is unlikely that the profession will develop.

international and national pronouncements on accounting and auditing matters, and relevant regulations and statutory requirements."

Donor-funded capacity building projects have stressed the pre-qualification element of accounting and auditing training. In an effort to increase the number of qualified personnel, emphasis has been placed on establishing and strengthening national accounting bodies to set examinations, strengthening existing educational institutions to improve the quality of accounting education, and establishing purpose-built centers of accounting excellence. Little consideration has been given to what happens to the accountants and auditors once they are qualified. There is a tacit assumption that qualified members will follow their profession's code of ethics, and that the national accounting body will discipline members not adhering to professional standards. Disciplinary action is normally as a result of a complaint from a member of the public. All over the world, members of the public are reluctant to complain to a professional body about a member; they do not understand the disciplinary mechanism, and feel that their complaint will not be treated seriously by the professional body which will side with its member. The experience in many industrial countries has shown that complaint-based systems are not effective and that a system of practice monitoring is required to maintain standards.
Summary

The accounting and auditing profession in most countries in SSA is weak. There is a shortage of accountants and auditors at all levels; accounting and auditing standards are not developed or monitored; accounting and auditing training is inadequate, especially in the public sector; and there is a lack of governmental accountability. Against this background, auditors and the quality of their work are increasingly important. The overall accounting and auditing situation in SSA will not improve until there are suitable training schemes for both private and public sector accountants and auditors, until governments are able to offer adequate salaries to retain qualified personnel, and until there is government commitment to improving accountability.
Chapter 2: Quality Review

What is a Quality Review?

A quality review is an independent review of a firm's auditing practices. A typical review would include reviewers visiting a firm, obtaining an understanding of how its quality control systems work, and testing relevant records and files. On completion of the review a report would be written, including, if applicable, a letter of comments indicating the areas in which the firm needs to improve. It is not the intention of the review to challenge the auditor's judgement over the audit conclusions reached. It is a review of the work performed and whether the work recorded supports the audit opinion. A quality review is not a re-audit of completed audits. It is a check that the systems in place are adequate. A re-audit can only provide assurance that a particular audit has been carried out satisfactorily. It does not provide assurance that future audits would be acceptable. Current programs involve members being reviewed by fellow practitioners, hence the frequently used term 'peer review'.

The Purpose of a Quality Review

A quality review ascertains whether an auditor's system of quality control provides reasonable assurance of conforming with professional standards. A quality review should result in increased user confidence in the reliability of financial statements, because the user can be assured that the auditors have adhered to professional standards. A quality review can also identify weaknesses in the audit process and so provide technical assistance to aid professional development.

One advantage of the schemes in the countries that have already adopted them has been the educational benefit. It is a learning experience for the practicing accountant. The reviews have drawn attention to problems which the firms have been then able to address.

Review schemes can:

• Help ensure that the auditors are competent and independent.

• Help ensure the reliability of financial statements.

• Identify potential problems with the auditors, at an early stage, which the auditors, professional accounting body or the Bank could rectify.

• Make auditors aware of auditing standards.

• Improve the capability of African auditors.

The last is the most significant for improved auditing in Africa.

Quality Review Schemes

The concept of quality and peer review schemes first arose in the 1960s and 1970s in the United States when there was widespread scrutiny of the practicing accounting profession. In 1968, the Council of the American Institute of Certified Public Accountants (AICPA) approved the establishment of a voluntary program whereby members could obtain confidential reviews of
accounting and auditing engagements. The reviews commenced in 1971 and by 1976 AICPA had reviewed over 300 firms. Since then, an ever-increasing number of bodies, including the Australian Society of Certified Practicing Accountants (ASCPA), the Institute of Chartered Accountants of Ontario, (ICAO), the Hong Kong Society of Accountants (HKSA), the Institute of Chartered Accountants in Ireland (ICAI), the New Zealand Society of Accountants (NZSA), the Chartered Association of Certified Accountants (ACCA), and the Institute of Chartered Accountants in England and Wales (ICAEW), have introduced similar schemes. In addition, the Society of Accountants in Malawi (SOCAM) has carried out a review of its members who hold practicing certificates. SOCAM intends to use this experience to implement a regular review program.

Quality review is a learning experience for the practicing accountant. Independent reviews of audit and accounting practices have been shown to be effective in helping firms identify and correct substandard practices. The International Federation of Accountants (IFAC) also encourages member bodies to introduce peer review programs, and in July 1992, its Council issued a Statement of Policy of the Council ‘Assuring the Quality of Audit and Related Services’(see Annex 1). The view of the Council of IFAC is that in today’s environment, many segments of society are increasingly dependent on decision-making on information over which they have no control. They turn to auditors for assistance in assessing the credibility of this information. The Council of IFAC considers that member bodies (twelve countries in SSA are members of IFAC) need to demonstrate that there are adequate self-regulatory programs in place to provide reasonable assurance that auditors adhere to the highest standards in performing audit and related services. IFAC believes that member bodies should take on the task of encouraging and assisting firms of auditors to maintain and improve the quality of their service. The Statement discusses the steps that can be taken by member bodies to achieve these objectives.

To date, only one country in SSA, Malawi, has carried out a review (see Box 2.1). The South African Institute of Chartered Accountants (SAICA) and the Public Accountants’ and Auditors’ Board (PAAB) have approved the implementation of an audit review program. The main purpose of the review will be to help provide assurance to the public that persons engaged in public practice are maintaining the prescribed level of professional standards. SAICA will be responsible for the planning, supervision and execution of the practice review program, and will appoint a full-time chief reviewer to coordinate the reviews. SAICA hopes to start undertaking reviews in 1994. The Institute of Chartered Accountants of Zimbabwe has also decided to introduce a review scheme which will be administered by Institute staff.

The National Board of Accountants and Auditors (NBAA) in Tanzania, which is responsible for the registration of accountants and auditors, also sees the need for the introduction of a review scheme to ensure that its registered accountants and auditors are adhering to Tanzania’s accounting and auditing standards. A study undertaken on behalf of ODA, which reviewed a sample of Tanzania financial statements, noted that some entities were not complying with either Tanzanian or International Accounting Standards (ODA 1991). Under an IDA-financed Financial and Legal Management Upgrading Project, technical assistance will given to NBAA to help it develop a review scheme.

Introduction of Schemes

Table 2.1 and Annex B summarize the different review schemes and their purpose. There are two main reasons why quality review schemes have been introduced: (a) a desire upon the part of the professional body to ensure that its members are observing professional standards, as in Canada; and (b)
government intervention, as in the United Kingdom. The review schemes have taken time to implement. All the accounting bodies that have introduced schemes spent a considerable time discussing the idea, drawing up the scheme and educating their members about the purpose of the scheme before implementation. Many bodies met with resistance from practitioners who saw the review process as a threat, and as an insult. Practitioners held that they were observing professional standards, and that they did not need to be reviewed. Some bodies, for example, AICPA, did not receive a favorable reaction from members, and it was some time before a mandatory scheme could be introduced.

Table 2.1: Purpose of Quality Review Schemes

<table>
<thead>
<tr>
<th>ACCOUNTING BODY</th>
<th>REVIEW SCHEME</th>
<th>INTRODUCED</th>
<th>PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Society of CPAs</td>
<td>Quality Assurance</td>
<td>1993</td>
<td>To ensure that members in public practice are complying with the professional standards of ASCPA. Reviews are undertaken every five years.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants of Ontario</td>
<td>Practice Inspection</td>
<td>1981</td>
<td>To assure the public that members practicing auditing are maintaining professional standards. Members are inspected every four years.</td>
</tr>
<tr>
<td>Hong Kong Society of Accountants</td>
<td>Practice Review</td>
<td>1992</td>
<td>To ensure that audits have been carried out in accordance with the Society’s auditing standards and guidelines, and to assure the public of the quality of the work of practicing CPAs. Reviews are undertaken every four years.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in Ireland</td>
<td>Practice Review</td>
<td>1987</td>
<td>To ensure that all members in public practice maintain professional standards. Reviews take place every five years.</td>
</tr>
<tr>
<td>New Zealand Society of Accountants</td>
<td>Practice Review</td>
<td>1950</td>
<td>To ensure that the Society’s mandatory accounting and auditing standards are being adhered to. Reviews take place every five years.</td>
</tr>
<tr>
<td>South African Institute of Chartered Accountants</td>
<td>Practice Review</td>
<td>1994</td>
<td>To assure the public that persons engaged in public practice are maintaining the prescribed level of professional standards. Reviews will take place every five years.</td>
</tr>
<tr>
<td>Chartered Association of Certified Accountants</td>
<td>Investment Business</td>
<td>1987</td>
<td>To ensure that those members so authorized are complying with the investment business rules. Reviews are undertaken every two or five years, depending on the level of investments held.</td>
</tr>
<tr>
<td></td>
<td>Registered Auditor</td>
<td>1991</td>
<td>To ensure that the member is complying with ACCA rules and guidance on practice management.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in England and Wales</td>
<td>Investment Business</td>
<td>1987</td>
<td>To ensure that those members so authorized are complying with the investment business rules.</td>
</tr>
<tr>
<td></td>
<td>Registered Auditor</td>
<td>1991</td>
<td>To ensure that audit work is carried out with independence and integrity and in accordance with ICAEW standards.</td>
</tr>
<tr>
<td>American Institute of CPAs</td>
<td>Peer Review</td>
<td>1977</td>
<td>To ensure that members are complying with the requirements of Statement on Quality Control Standards No. 1, ‘System of Quality Control for a CPA firm.’</td>
</tr>
<tr>
<td></td>
<td>Quality Review</td>
<td>1988</td>
<td></td>
</tr>
</tbody>
</table>
Box 2.1: The Society of Accountants in Malawi: Practicing Certificate Review

In 1981, the Public Accountants and Auditors Act was passed to regulate the accountancy profession in Malawi. The Act established the Public Accountants Examinations Council (PAEC) and the Malawi Accountants Board (MAB), and formally recognized the Society of Accountants in Malawi (SOCAM). PAEC is responsible for determining the examination syllabus and training structure for the Malawi accountancy profession, MAB is responsible for the registration of all professional and technician accountants, and SOCAM is the membership body.

SOCAM is responsible for the formulation and monitoring of professional ethics, accounting and auditing standards, and the provision of continuing professional development. Under the Public Accountants and Auditors Act, SOCAM has the responsibility for the renewal of practicing certificates. In 1988, MAB advised SOCAM that it interpreted this responsibility as something more than the collection of annual renewal fees. After due deliberation, the Council of SOCAM decided that a review of those members holding practicing certificates should be carried out.

In 1992, SOCAM carried out its first practicing certificate review. The aim of the review program was to ensure that the public is justified in placing a high degree of competence and trust in holders of practicing certificates. In addition, the reviewers took the opportunity of the review to obtain feedback from members on the activities of SOCAM. The reviews were carried out by two senior Council members of SOCAM. Due to legal constraints a detailed review of working papers was not undertaken. In general, the reviewers found a sound knowledge and application of international accounting and auditing standards, and ethical standards, as adapted by SOCAM, and a good knowledge of the Companies and Taxation Act. Less satisfactory was the knowledge of the Public Accountants and Auditors Act. The reviewers also found that SOCAM has failed to keep its members up-to-date with technical material, and most members have to rely upon their membership of foreign accounting bodies for such information.

The review program was welcomed by both international and local firms, and the Council of SOCAM has decided to make the program a regular exercise. In designing its future review program, the Council took into consideration members' concerns over the independence of the reviewers. Many bodies with similar concerns have chosen to appoint full-time staff to undertake reviews. SOCAM is a small body however, and cannot bear the cost of hiring such staff. To try to ensure independence the new program will have a senior non-practitioner who will be accompanied by one or more practitioners. Firms will be able to object to any of the reviewers proposed. SOCAM would like to extend the review to include an analysis of a selection of working papers and the Council is suggesting that practitioners change their engagement letters with their clients to cover the possibility that working papers may be selected for independent confidential review.

Reviewers

Full details of the selection of reviewers are included in Annex C. In choosing a reviewer professional bodies look for a number of qualities: (a) independence and integrity; (b) professional competence; (c) attention to detail; and (d) excellent interpersonal skills. All the bodies that have introduced review schemes have chosen to appoint as reviewers members with considerable experience in an auditing firm. They have not chosen to appoint members with experience in industry and commerce or academia. Most of the bodies have appointed their reviewers as full-time members of staff to ensure consistency and independence. Many of the practitioners being reviewed come from close-knit communities, for example, Hong Kong and Ireland, and the professional bodies
concluded that it would be difficult for members to objectively review each other when they were competing for the same business.

**Reviews**

The review process, which is detailed in Annex D, varies from body to body. Generally, reviewers are looking to see compliance with auditing standards. The reviewers will test a firm's quality control policies and procedures by reviewing a sample of audit and non-audit engagement files. Overall, review schemes have been successful when:

- The process has been transparent.
- The fears and concerns of members have been taken seriously, and guidance in how to prepare for the reviews has been freely given.
- They are educational, not punitive and assistance has been available to help the firms address their problems.
- The outcome of the review, and the knowledge obtained during the review has been kept confidential.

**Results**

The reviews have uncovered a number of generic problems:

- The workload of some practitioners is more than they can handle.
- Practitioners are not undertaking sufficient continuing professional development (CPD), and are failing to keep up with accounting and auditing standards.
- Consultation with other partners or outside experts is inadequate.
- Supervision of audit staff is poor.
- Documentation of key audit procedures or conclusions is inadequate.
- Practitioners do not have formal policies or procedures for accepting new clients, or continuing to serve existing ones, and are overdependent on a small number of clients.
- Lack of independence.

**Benefits**

As Annex E and Table 2.2 illustrate, most accounting bodies have found more benefits to the introduction of the review schemes than drawbacks. AICPA has found that the improvements firms have made between their initial and most recent reviews have demonstrated the educative value of reviews. In some cases the improvement has been dramatic, and firms have gone from an adverse or highly modified review to a clean opinion in a relatively short period. In particular, the accounting bodies have found that the schemes:

- Protected the public by identifying deficiencies.
- Enhanced the image of the profession in the eyes of the public.
- Improved the quality controls and working methods of practitioners.
- Led to practitioners introducing improved CPD programs to ensure that all staff are informed of new accounting and auditing standards and techniques.
- Made practitioners more confident, in that they know that they are adhering to the profession's standards.
Quality Review Schemes for Auditors in SSA

- Improved employee morale.
- Enabled firms to reorganize staff to better address the needs of their clients, and comply with accounting and auditing standards.

Many accounting bodies realize that it is better

Table 2.2: Quality Review Scheme Reviewers, Benefits and Reaction

<table>
<thead>
<tr>
<th>BODY</th>
<th>REVIEWERS</th>
<th>BENEFITS</th>
<th>REACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Society of CPAs</td>
<td>Reviewers are members of ASCPA or the Institute of Chartered Accountants in Australia</td>
<td>Too early to say.</td>
<td>Too early to say.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants of Ontario</td>
<td>ICAO has 4 full-time and 3 part-time inspectors/detailed reviewers, 32 part-time inspectors and 2 part-time detailed reviewers. All inspectors are members of ICAO with extensive experience in practice.</td>
<td>Improvement in standards, reduction in potential disciplinary action.</td>
<td>Initial hostility by members who felt threatened. Today the program is well received.</td>
</tr>
<tr>
<td>Hong Kong Society of Accountants</td>
<td>HKSA has appointed 2 members of staff as full-time reviewers.</td>
<td>Too early to say.</td>
<td>Members were initially concerned over possible breach of confidentiality. HKSA has overcome this problem by appointing full-time reviewers.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in Ireland</td>
<td>ICAI has 4 full-time reviewers who are members of the Institute.</td>
<td>Improvement in standards, enhanced reputation of members.</td>
<td>Reviews are seen as a positive exercise.</td>
</tr>
<tr>
<td>New Zealand Society of Accountants</td>
<td>NZSA has 2 full-time employees and 4 part-time reviewers.</td>
<td>Too early to say.</td>
<td>Initial reaction is favorable.</td>
</tr>
<tr>
<td>Chartered Association of Certified Accountants</td>
<td>ACCA has 7 full-time compliance officers. All are members of ACCA or ICAEW.</td>
<td>Too early to say.</td>
<td>Favorable.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in England and Wales</td>
<td>IMU has 40 inspectors (including 8 senior inspectors and 4 regional controllers).</td>
<td>Too early to say.</td>
<td>Favorable.</td>
</tr>
<tr>
<td>American Institute of CPAs</td>
<td>AICPA uses a variety of review methods, including firm-on-firm, state society teams, and teams put together through its computer database.</td>
<td>Improvement in standards and quality controls.</td>
<td>Varies from fear of the review process to welcoming it.</td>
</tr>
</tbody>
</table>
Table 2.3: Review Fees

<table>
<thead>
<tr>
<th>BODY</th>
<th>COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Society of CPAs</td>
<td>The fee is negotiated between the reviewer and the reviewee.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants of Ontario</td>
<td>Reviewee pays CAN$90 (US$75) per hour. Average cost for sole practitioner CAN$1,000 (US$830), and for large firm CAN$10,000 (US$8,300). Administrative overheads are met from members fees.</td>
</tr>
<tr>
<td>Hong Kong Society of Accountants</td>
<td>Cost of practice review will be absorbed by the Society's General Fund.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in Ireland</td>
<td>Reviewee pays circa £150 (US$81) per hour. Administrative overheads are met from members fees.</td>
</tr>
<tr>
<td>New Zealand Society of Accountants</td>
<td>Reviewee pays $NZ80 (US$42) per hour. Average cost for sole Practitioner $NZ600 to $NZ800 (US$318 to US$424), and for two partners, $NZ1,000 to $NZ1,200 (US$530 to US$636).</td>
</tr>
<tr>
<td>Chartered Association of Certified Accountants</td>
<td>Fee included in fee for annual practicing certificate.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in England and Wales</td>
<td>Fee varies according to size of firm. Average cost for sole practitioner with no listed clients £230 (US$409), and for firm with 251+ partners with 41+ offices £86,250 (US$153,525).</td>
</tr>
<tr>
<td>American Institute of CPAs</td>
<td>Fee varies according to size of firm. Small firms vary between $1,500 and $3,000. Large firms can cost up to $1 Million. AICPA administrative budget was $3.8 Million in 1991.</td>
</tr>
</tbody>
</table>

Review Scheme Costs

For the first year of operation HKSA estimates that the running costs of its Practice Review Program will be HK$1 million (US$130,000). The administrative budget for the AICPA Quality Review Program topped $3.8 million in 1991. Practitioners have also complained about the costs involved in undergoing a review. Table 2.3 indicates the level of review fees. Of those schemes reviewed, two bodies charge no additional fees for reviews, and another three bear the overheads of the review schemes.

Implications for SSA

The introduction of quality reviews in SSA could provide a basis from which to improve the auditing profession in SSA. It is not, however, the sole answer to the problem of weak accounting and auditing capacity in SSA, it is just part of the solution. Overall accountability will not improve in the private sector until there are stronger national accounting bodies able to provide technical support to their members, and in the public sector until the fundamental constraints of poor remuneration and lack of training are tackled.
Quality Review Schemes for Auditors in SSA

Cost

As mentioned previously, some bodies have chosen to employ full-time reviewers to try to ensure independence and confidentiality in the review process. In addition, all bodies have hired full-time staff to administer their review schemes. Many accounting bodies in SSA however, do not have sufficient income to be able to hire full-time members of staff to undertake reviews, and administer the review process. The cost of the review process will have to be passed onto those reviewed. In most countries, the accounting body charges the reviewees fees to cover the cost of the reviews. Auditors however, have complained about the level of the fees, and a similar situation is likely to arise in SSA. If auditors object to paying fees for the reviews, they may vote against the introduction of a quality review scheme. To overcome this problem, accounting bodies will have to emphasize the educational benefits of the reviews, and where needed, will have to provide advice to help auditors improve the quality of their service.

In Malawi, SOCAM has realized that it cannot bear the cost of hiring full-time staff. The format for the review was designed by members of the Society and the initial review was carried out by two Council members. For future reviews, SOCAM has decided to introduce a system of peer review, whereby a practitioner will be reviewed by a fellow member. Although such a method may be the most cost-effective way of introducing a review scheme in SSA, there could be problems over independence and client confidentiality. To address these problems, SOCAM has decided that the reviewees will be able to object to any of the proposed reviewers, and that a permanent feature of the review will be the participation of a non-practitioner.

Legal Restrictions

In a number of countries, legal restrictions have prevented access to working papers. Such a restriction severely affects the benefits of a quality review scheme. It is possible that this will be the case in some countries in SSA. Bank assistance may be required to demonstrate to governments the benefits of quality review, and the need for legislative change.

Review Findings

In those countries that are operating review schemes, most of the problems raised during quality reviews are not severe. The quality review exercise seeks to fine-tune accounting firms, which are already operating at a high standard. Most firms have quality controls, and the reviewer is only required to review a sample number of files to check that the controls are working adequately. Particularly in the public sector in SSA, many auditors have received no formal training. Reviewers may find that there are no quality control procedures in place, and that a substantial review of files will have to be carried out, which will be time-consuming and costly. The reviews, especially in the public sector, are likely to reveal serious deficiencies and a significant developmental effort will be needed before standards improve.

Summary

Reviews of auditors have been undertaken by the accounting and auditing profession since the early 1970s. The number of bodies introducing review schemes has risen, especially in recent years. IFAC, which has a membership of 111 professional accounting bodies from 81 countries, has issued a Statement of Policy of Council encouraging member bodies to introduce review schemes for practicing accountants.

All the schemes that have been introduced have taken time to implement; many bodies faced initial opposition, and had to spend considerable time educating members about the benefits of their schemes. The cost
of establishing the schemes has been significant; all bodies have had to employ staff to administer the schemes; some have engaged their own full-time reviewers. Overall opinion however, is satisfied that the benefits balance the cost. The schemes that have been established have helped improve quality controls and working methods of auditors, have enhanced the profession in the eyes of the public, and have prevented government regulation of the profession.

Many accounting bodies in SSA however, do not have sufficient income to be able to hire full-time members of staff to undertake reviews, and administer the review process. In addition, the reviews may reveal serious deficiencies which the accounting body may not have the capacity or resources to rectify. External assistance may be required to enable accounting bodies to introduce review schemes and provide the necessary support to help their members improve.
Chapter 3: Adaptation to SSA - the Results of Two Pilot Review Schemes

There are weaknesses in the auditing profession, particularly in the public sector, in SSA. The national accounting bodies have yet to develop to the stage where they effectively monitor the activities of their members, and ensure that professional standards are being maintained. The review schemes that have been introduced by the accounting bodies have provided an objective way to review the work of the practicing accountant to ascertain that auditing standards are being adhered to. The schemes have had a number of benefits, notably, they have protected the public by identifying deficiencies, and have enabled auditors to improve their quality controls and working methods. The introduction of a review scheme in SSA could achieve similar results, and provide a platform from which to improve the capability of the auditing profession. The development and introduction of a review scheme would be too expensive for most accounting bodies in SSA. It is recommended that a model review scheme should be introduced which national accounting bodies could adapt to suit their individual needs.

Objectives and Format of the Pilots Reviews

The quality review schemes that have been introduced around the world all met with some degree of hostility from the members. When accounting bodies have explained the process, their members have understood the purpose and the benefits of the reviews. This does not mean however, that members are not afraid of the review process or are not apprehensive about the consequences of a review. The same concerns will be present when introducing a review scheme to SSA. It is one thing to objectively agree with the need for a review process, it is quite another to undergo one.

In 1992, the preliminary research for this report was issued as a discussion draft ‘Quality Review Schemes for Auditors: Their Potential for Sub-Saharan Africa.’ (Johnson 1992). The draft was sent to national accounting bodies, government auditors and the donor community. The Discussion Draft recommended that before a model scheme was implemented throughout SSA, two pilot reviews should be carried out to help overcome these problems. The reaction to the concept from SSA was very positive. The pilots were undertaken in March and May, 1993. The main objectives of the pilots were to:

- Assess the reaction to the concept of auditor reviews.
- Ascertain whether the review process is appropriate.
- Iron out any practical difficulties.

Countries

For the pilot scheme, one Anglophone and one Francophone country were chosen: Tanzania and Senegal. To gain the most from the pilot, a sample of auditing firms and government auditing entities were reviewed. Both Tanzania and Senegal have a reasonable number of fully qualified accountants and auditors. In Tanzania, the National Board of Accountants and Auditors (NBAA) had expressed an interest in introducing quality reviews. It was felt that the pilot would be
welcomed and the Bank would be able to assist in training NBAA staff to undertake its own reviews. The immediate past President of the Fédération Internationale des Experts Comptables (FIDEF) is based in Senegal, and the introduction of quality reviews in Senegal could ease its implementation in other Francophone countries.

**Reviewers**

Apart from technical ability, a person needs to have excellent inter-personal skills to undertake a review effectively. Indeed, these skills are, in many ways, more important than technical ability. The purpose of these reviews is educational, and the reviewers are not simply undertaking an auditing exercise. There must be confidentiality of the review and clients. In those countries that have introduced quality review schemes, the reviews have been carried out by fellow practitioners or by members of staff of the accounting body. Apart from a few countries, for example, Kenya, Nigeria, South Africa, Tanzania, and Zimbabwe, most of the accounting bodies in SSA are small. Even in these countries, the staffing of professional bodies and number of members may not be sufficient (or be appropriately experienced) to develop and sustain an effective independent quality review scheme.

Although review schemes in other countries have used fellow members (whether full-time or part-time employees), it was decided that fellow practitioners should not be used to review members for the pilots because the communities are close-knit, they all compete for the same business, and it could be difficult for the reviewers to be truly independent. They have little or no experience of reviews, and training would be costly. For the pilot review process to go smoothly and gain credibility, the Bank needed to minimize the risks. It was decided that the Bank should hire reviewers with specific experience of undertaking quality reviews for the following reasons:

- The training the Bank would be required to give the reviewers would be kept to a minimum.
- The reviewers have established records, and the Bank could be reasonably assured of their ability to carry out successful reviews in SSA.
- There would be less risk of the pilot not being successful because of a weak reviewer.

Representatives of the national accounting body were invited to participate in the review process, as a long-term development goal is for the accounting bodies to manage their own review schemes.

**Pre-Pilot Activities**

Before the pilot, the following activities were undertaken:

- Reviewers were selected and sensitized to the particular requirements of the Bank, and the African accounting and auditing scene.
- A guide for auditors was written clearly explaining the review process and addressing some of the anxieties the auditors have, so that the whole review process is transparent (see Annex F).
- A questionnaire was sent to all those participating in the pilot review to obtain basic information about the audit entity or firm and its internal controls and audit procedures (see Annex G).
- The countries were visited by Bank
staff and representatives of the government, accounting bodies and firms were met.

- Reviewers familiarized themselves with local accounting and auditing standards, Treasury regulations and other legislation that affect the accounting and auditing profession.
- Any in-country legal constraints to the carrying out of the pilots were ascertained.

The Pilots

Prior to the pilot, meetings were held with all the auditors that were subject to review to explain: (a) the objectives of the quality review scheme; and (b) what the reviewers would be looking for. This was done to ensure that the auditors clearly understood what the review would entail, and to enable the auditors to explain their working methods to the reviewers. For the reviews to be successful, it was important for the auditors to actively participate, and to accept that the reviewers were there to help them, not punish them. Part of the success of the pilot was due to the active participation of the national accounting bodies, governments, and the auditors being reviewed.

On the actual day of the review, the reviewers met with the senior partner or nominated official to explain the review process and to discuss the information in the questionnaire. On the basis of these discussions the reviewers were able to form an opinion on the level of quality controls in place. This information determined the number of audit engagement files that were reviewed. The files were examined to ascertain the level of compliance with the generally accepted auditing and accounting standards in Tanzania and Senegal, and whether there was adequate documentation to support the auditor's opinion. It was not the intention of the reviews to challenge the opinion of the auditor. In reviewing auditors, the Bank did not expect to see the same level of documentation of quality controls or procedures in a small national firm or government auditor as in a large international one, which would have more formal procedures.

On completion of the review, the reviewers discussed their findings with the auditors, and suggested actions that the auditors could follow to improve their working methods. A confidential written report of the findings was sent to each auditor after the review. As the aim of the pilot review was educational, not punitive, the involvement of the national accounting bodies was on the basis that no disciplinary action would be undertaken even if deficiencies were found, and that auditors should be given the opportunity to improve. At the end of the review process, a wrap-up meeting was held with all those reviewed to discuss, in general terms, the problems encountered and the solutions recommended.

The pilot quality reviews looked at:

- The independence of the auditor, and what is done to ensure independence.
- The number of staff employed, their qualifications, and staff supervision.
- Compliance with generally accepted accounting and auditing standards.
- Audit planning, including assignment of personnel.
- Accounting and auditing hours and client lists.
- CPD, audit manuals and other documentation.
- Consultation with partners or other experts.
• Hiring and advancement.
• Acceptance and continuance.

The Tanzania Pilot Quality Review

The pilot quality review was carried out in March, 1993. Reviews were undertaken of the Office of the Controller and Auditor General (which is responsible for the audit of ministry accounts), the Tanzania Audit Corporation (which is responsible for the audit of parastatals) and five private auditing firms which were selected by NBAA. The private auditing firms were selected to ensure a representative sample of international, national, small and large firms.

Regulatory Framework

Under the Companies Ordinance Act, 1932, every company must keep proper books of account, which must be audited. The Accountants and Auditors (Registration) Act of 1972, requires all accountants and auditors in Tanzania to register with NBAA. The Act also requires that every body of persons, whether corporate or unincorporate, engaged in Tanzania in any trade or profession, and either having assets or turnover in excess of a specified amount employ at least one authorized accountant or auditor. In addition, self-employed persons earning a gross income of more than a certain amount must have their income tax returns prepared or certified by an authorized accountant or auditor, and every set of accounts must be prepared or certified by an authorized accountant or auditor.

The National Board of Accountants and Auditors

The main functions of NBAA are to conduct examinations and regulate the activities and conduct of accountants and auditors. NBAA offers an accounting technician qualification plus a professional Certified Public Accountant (CPA) qualification. In addition to its student education program, NBAA organizes short seminars for its members. NBAA has 149 authorized auditors on its register.

An important part of the pilot review was to obtain active participation from the national accounting body. NBAA was involved in the pilot review from the inception. Staff were consulted on the initial proposal and received a draft copy of the Discussion Draft for comment. Prior to the actual review, two visits were made to Tanzania specifically to talk to NBAA and the auditors about the pilot. A representative from NBAA attended all the initial meetings with the auditors and the subsequent reviews to learn about quality reviews and how NBAA could introduce a similar scheme for its own practicing members. The involvement of NBAA contributed significantly to the success of the pilot quality review.

The Controller and Auditor General

The Controller and Auditor General is responsible for the audit of all government ministries and departments. The Office of the Controller and Auditor General (OCAG) was set up under an Ordinance in 1961, and the post of Controller and Auditor General (C&AG) is established in the constitution of the Republic of Tanzania, which requires the President to appoint a C&AG, and provides safeguards against arbitrary dismissal from office. The Ordinance directs that all government accounts must be submitted within four months of the end of the financial year, and be audited within nine months of the end of the financial year. The C&AG must submit an annual report on all accounts audited to the President, who is required to table the report before the National Assembly.

The Office of the Controller and Auditor General has an established staff of 563 (99 in the audit cadre and 464 in the examination cadre). It is, however, understaffed, and there are only 65 auditors
Pilot Schemes

and 320 examiners in post. In addition to the staff located in the Office of the C&AG in Dar-es-Salaam, staff are also stationed in some of the larger ministries undertaking continuous audit, and in twenty branches throughout Tanzania. A five year program of assistance to improve the effectiveness and efficiency of government internal audit (the responsibility of the Ministry of Finance) and government external audit is being financed by the UK Overseas Development Administration (ODA) (Tanzania Public Administration Training and Institutional Development Program (PATID): Government Audit). The program, which has been running for three years, involves bringing audit skills up-to-date and helping build local capacity. Under the IDA-financed Financial and Legal Management Upgrading Project (FILMUP) assistance is being provided for twenty-nine staff to complete their CPA examinations at the Institute of Accountancy, Arusha.

Tanzania Audit Corporation and the Private Auditing Firms

With some forty CPAs, the Tanzania Audit Corporation (TAC) is by far the largest auditing entity in Tanzania. Under the Tanzania Audit Corporation Act of 1968 TAC is required to audit in accordance with the best professional standards (Section 4(2)). Until recently, legislation required TAC to audit the accounts of all parastatals. Under the Public Corporations Act 1992 most parastatals will be able (under certain conditions) to appoint an auditor other than TAC. It is expected however, that TAC will continue to play a major role in the auditing profession either in its current form, or as a privatized auditing firm. Apart from Coopers and Lybrand (the only international firm in Dar-es-Salaam), Tarna Somaiya (a correspondent firm of Price Waterhouse), and Massawe and Co., the auditing profession is dominated by small accounting firms of which there are about fifty-five.

Pre-Pilot Activities

In addition to the general activities outlined here, two pre-pilot meetings were held with the auditors who participated in the pilot. The purpose of these meetings was to describe the review process, answer any questions and obtain detailed profiles of each of the audit entities and firms. The reaction received during these meetings was extremely favorable, and all the auditors welcomed the pilot reviews.

The Review

The generic details of the review process have been outlined previously. In carrying out the review, the same procedures were adopted for TAC and the five auditing firms, in that the reviewers looked for compliance with Tanzanian accounting and auditing standards. Unlike the auditing firms, the Controller and Auditor General is not statutorily obliged to carry out his audit in accordance with Tanzanian standards. The role of the Controller and Auditor General is defined by the Constitution of Tanzania which requires him to:

- Grant to the Treasury credits on the Exchequer Account.
- Satisfy itself that all monies appropriated by Act of Parliament and disbursed have been applied to the purpose for which they were appropriated and that the expenditure conforms to the authority which governs it.
- Audit and report at least once in every year, upon the public accounts of the United Republic, the accounts of all offices and authorities of the Government of the United Republic and the accounts of the Clerk of the National Assembly.
Review Findings

The Office of the Controller and Auditor General. The quality review schemes that have been introduced by accounting bodies are for private sector auditors. Although some government auditors are members of accounting bodies that operate such review schemes, they have not been included in the review schemes because they do not offer services directly to the public. One of the objectives of the pilot was to test whether the same review scheme could be used for both private and public sector auditors.

A problem that surfaced during the pilot was that auditors in the public sector are often not subject to the same accounting and auditing standards as their private sector counterparts. In Tanzania, the Controller and Auditor General is not statutorily obliged to audit in accordance with Tanzanian standards. It was not possible therefore, to subject his office to the same review as the private auditing firms. The content of the review was a review of documentation for the audits of two IDA-financed projects, and an assessment of the training program of OCAG. The review found a number of weaknesses including; insufficient audit planning and procedures, lack of adequate supervision, and poor audit documentation.

In SSA, there are a number of problems which affect the quality of the work of the government auditor. Government accounting is poor, accounting systems are inadequate and the accounts that are prepared are difficult to audit. Government auditors have little control over the amount of work they are required, by statute, to undertake. Unlike private sector auditors, government auditors cannot decline to take on audit responsibilities if they are overburdened. In addition, it is often difficult for government audit departments to recruit and retain suitably qualified staff. OCAG in Tanzania does not have one fully qualified CPA working on its staff. As a result, the quality of the work produced can suffer. While many donors are assisting government audit departments in SSA, including Tanzania, it will be some time before they have sufficient capacity to effectively carry out their mandates.

TAC and the Private Auditing Firms. The findings of the reviews of the private sector auditors were similar to those found in the countries that currently operate review schemes. Although most of those reviewed were in compliance with Tanzanian accounting and auditing standards, the reviews found examples where these standards had not been followed. These findings were discussed with those concerned, and were followed up by a confidential written report. The reviews also revealed that Tanzanian accounting and auditing standards have not kept pace with international standards, and that there are significant gaps in the national standards which NBAA needs to address.

The pilot review findings identified a disparity in the level of compliance with standards between the international and large national firms, and the small firms. The international firm and the large national firm reviewed were in compliance with the national accounting and auditing standards. In addition, where there were no national standards, these firms were in compliance with international standards. These firms have the backing of international links which can provide them with technical support. They are regularly reviewed through their partner and correspondent firms, and the substance of the pilot review was not new to them.

The small firms do not have this backing, and some weaknesses were found in the level of compliance. Although some of the auditors reviewed are members of UK accounting bodies and do receive some technical material (members' handbook and monthly journal) from their UK bodies, they are, to a large extent, dependent upon the services of NBAA to keep them professionally
Pilot Schemes

up-to-date. As the private sector becomes more developed in Tanzania, there will be an increasing role for small firms which offer accounting and auditing services. If small businesses are to start on a sound financial footing, it is important that they receive accurate advice. Through its participation in the pilot reviews, NBAA was able to identify the areas in which it should be providing support to its members to help them improve.

Reaction. At the end of the mission, a wrap-up meeting was held with those auditors reviewed, and representatives of NBAA, to discuss the generic findings. The feeling of the meeting was that the reviews were very useful and that NBAA should introduce a similar scheme for all its authorized auditors. It was felt that such a scheme could play a major role in improving the quality of the auditing profession. As well as providing the auditors with an objective review of a sample of their files, the pilot also provided the auditors with an opportunity to discuss with the reviewers and NBAA staff the direction in which they would like to see the profession develop and the assistance they would like NBAA to provide. Under an IDA-financed Financial and Legal Management Upgrading Project, technical assistance will be provided to help NBAA to develop a review scheme. This will include funding for an expert to visit Tanzania three times over the lifetime of the project to assist NBAA develop its accounting and auditing standards, and establish a review scheme to monitor compliance.

The Senegal Pilot Quality Review

In carrying out the pilot reviews, the Bank sought to involve the national accounting body in the process. The firms which participated in the reviews however, were asked whether they wanted a representative from the national body to be present during the actual review. In Senegal, the firms decided that they would prefer that the Ordre National des Experts et Evaluateurs Agrées du Senegal (ONEEAS) did not participate in the review process. The review was however, discussed in detail with, and supported by ONEEAS.

The Regulatory Framework

Senegal is a member of OCAM (Organisation Commune Africaine Malgache et Mauricienne) and as such is a party to the common regulatory framework of OCAM for the reporting and disclosure of financial information. OCAM regulations have been legally promulgated in Senegal as follows:

- Disclosure. Ordinance-Law 75-83 of December 20, 1975 requires all registered business, corporate or individual, to maintain records and produce annual financial statements in accordance with the Senegalese version of the OCAM accounting plan (Plan Comptable).

- Reporting. Ordinance-Law 85-40 of July 29, 1985 renders the commissariat-aux-comptes obligatory for all business entities. The professional responsibilities of the Commissaires-aux-Comptes are defined in Presidential Degree 88-987. These responsibilities however, fall far short of the auditing standards published by the ONEEAS and of International Standards on Auditing (ISAs).

Senegalese statutory requirements for financial reporting are embodied in Law no.75-783 dated December 20, 1975, under which all companies with the exception of banks and financial establishments are required to file financial statements prepared on standard printed forms, within four months of the statutory year end. These statements include:

- Operating Statement
Quality Review Schemes for Auditors in SSA

- Appropriation Account
- Balance Sheet
- Statement of sources and application of funds
- Statement of off-Balance Sheet commitments.

The statutory requirement to issue published financial statements on standard forms precludes any deviation from statutory reporting requirements. All financial statements of clients reviewed had been prepared on such forms. Major modifications are required to these forms to enable them to comply with International Accounting Standards on disclosure and presentation of financial information.

**Ordre National des Experts et Évaluateurs Agrées du Sénégal (The National Order of Licensed Experts and Valuers of Senegal)**

The profession in Francophone Africa is not as developed as in Anglophone Africa. There are few national accounting bodies, and most accountants and auditors have earned their qualifications in France. None of the Francophone countries are members of IFAC and IASC. ONEEAS was created in 1983 by Ordinance-Law 83-06. It is a multi-disciplinary body incorporating insurance assessors and mechanical engineers, in addition to accountants. Apart from maintaining an office and secretariat, ONEEAS has not been particularly active in development of the accounting profession. With Bank finance, it has produced a manual of auditing standards, but it does not appear to carry much influence in political circles, as evidenced by the recent admission to ONEEAS of State Inspectors (Inspecteurs d'Etat) with more than fifteen years' experience, a government initiative which the Ordre opposed but was unable to prevent.

**The Review**

The pilot quality review was carried out in May, 1993. Reviews were undertaken of eight private auditing firms. The private auditing firms were selected to ensure a representative sample of international, national, small and large firms. The generic details of the review process have been outlined in the preceding text. In carrying out the review, the same procedures were adopted for all firms. The reviewers looked for compliance with the auditing standards issued by ONEEAS for the Commissaire aux Comptes, the Senegalese Accounting Plan, respect of international auditing standards, and whether there was adequate documentation to support the auditor's opinion.

**Review Findings**

As in Tanzania, the findings of the reviews varied. Standards varied tremendously, regardless of the size of the client or of the auditing firm; some small firms were found to maintain files in good order and in respect of most international auditing standards whereas others, including one of the major firms, were conspicuous for the poor condition of their files and their lack of sufficient evidence of audit tests and controls carried out. Following each review, a meeting was held with the practitioner concerned to discuss any matters arising as a result of the review. A written confidential report of the recommendations and suggestions for improvement was sent to each firm. These reports will not be sent to ONEEAS. The reviews also revealed that Senegalese statutory requirements for financial reporting do not comply with international accounting standards in the areas of disclosure and presentation of financial information, and, the auditing standards developed by ONEEAS are not in line with international auditing standards.
**Reaction**

The reaction to the reviews was favorable and the auditors were supportive of the quality review pilot, and the concept of introducing a quality review scheme in Senegal. Unfortunately, the President of ONEEAS was not available at the end of the mission, and a wrap-up meeting was not held. ONEEAS does not have the same level of influence as NBAA in Tanzania. Before a quality review scheme could be effectively introduced in Senegal, ONEEAS would need to be strengthened to establish itself as the authoritative body in Senegal for the accounting auditing profession, and for the development and monitoring of accounting and auditing standards. In its current form, ONEEAS has to promote the interests of many professions. If the accounting and auditing profession is to develop, it may be more appropriate to establish a separate body dedicated to the accounting and auditing profession in Senegal.

**Implications for SSA**

Annex H summarizes the main areas that accounting bodies need to consider before they can introduce a quality review scheme. With a few exceptions, the accounting bodies in SSA do not have the same level of human resources and technical expertise as those that have introduced review schemes. The need to regulate the profession however, is just as strong. Before a quality review scheme can be introduced in SSA, there are a number of steps that will need to be taken to overcome the particular problems facing the Region.

**Government Auditors**

If a quality review scheme is introduced for government auditors, it is likely that major deficiencies will be found. When deficiencies are found in the private sector, the national accounting body can help, or be strengthened to help, auditors improve the quality of their services. In many countries there are no qualified accountants working as government auditors and government auditors are not required to adhere to the same standards as private sector auditors. As a result, the national accounting body has little contact with the public sector. In deciding how to overcome any deficiencies, a decision will have to be made on a country-by-country basis as to whether it is best to support the government auditor directly or whether assistance should be directed through the national accounting body.

**Standards.** Government auditors are not always subject to the same standards as their private sector counterparts. A quality review scheme established for the private sector may not be appropriate for the public sector. Many government auditing bodies are members of the International Organization of Supreme Audit Institutions (INTOSAI). INTOSAI is an independent body which aims at promoting the exchange of ideas and experiences between Supreme Audit Institutions. Like IFAC, INTOSAI issues standards. INTOSAI auditing standards provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit. Their standards are like international auditing standards in that they emphasize independence, skills and exercise of due care. In addition, they recognize the fact that the independence of the Auditor General is determined by statutory regulations over which the Auditor General may have no control. The standards also prescribe that the auditor should report on economy, efficiency and effectiveness, in addition to the regular compliance audit.

Members of INTOSAI are not obliged to follow these. However, an increasing number of countries, including South Africa, are adhering to INTOSAI standards.
In establishing a quality review scheme for government auditors in SSA, the scheme could be devised using the standards promulgated by INTOSAI. These standards appear to be the most appropriate to monitor the quality of the work of the government auditor.

**Private Sector Auditors**

The findings of the reviews of the private sector auditors were similar to those found in the countries that currently operate such schemes. Where there is a difference, it is in the capability of the national accounting body. The countries that have introduced such schemes have strong accounting bodies who are able to assist their members overcome any deficiencies. In SSA, most of the national accounting bodies do not have the capacity to help their members improve the quality of their work. If review schemes are to be introduced in SSA, national accounting bodies will need strengthening, not just to introduce such schemes, but also to help their members overcome any deficiencies the reviews may uncover.

**Standards.** Before a quality review scheme can be introduced, the minimum professional accounting and auditing standards that must be adhered to by auditors should be established. In carrying out a quality review, the reviewer must have a set of accounting and auditing standards to use as a guide in determining whether a practitioner’s audit files and financial statements are in compliance. Not all countries in SSA have their own national standards. Where this is the case, the national body may wish to adopt international standards or prepare its own standards before a quality review scheme is introduced.

**Involvement of National Accounting Bodies**

The pilots demonstrated that a quality review scheme can be successfully introduced when there is commitment from the national accounting body. There are some countries in SSA which do not have national accounting bodies. Although the Bank could undertake quality reviews of auditors in such countries, the benefits would be limited. For the quality of auditing to improve there needs to be regular monitoring, and a national accounting body willing to assist its members improve the quality of their services. It would be premature to undertake a quality review in countries where there are no national bodies.

**Involvement of Regional Accounting Bodies**

There are a number of regional accounting bodies in SSA. The most active of these are: (a) the Fédération Internationale des Experts Comptables (FIDIF), which represents the Francophone countries; (b) the Association of West African Accounting Bodies (ABWA), which includes The Gambia, Ghana, Liberia, Nigeria, Senegal and Sierra Leone; and (c) the Eastern, Central and Southern Africa Federation of Accountants (ECSAFA) which has member bodies from Kenya, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. Although these bodies have been established for some years, in terms of the services they offer, they are in their infancy. Unlike the national accounting bodies, the regional bodies seldom have permanent staff, and they are run by volunteers, often with support from national bodies.

A problem that has been identified in those countries that have introduced review schemes is that where the communities are small it can be difficult to ensure reviewer independence. In the future, if the regional bodies become stronger, and employ permanent staff, they could play a part in helping national bodies introduce their own review schemes. In the short-term, the regional bodies could play a useful role in compiling a list of auditors in the region who are able to carry out reviews. This information could then be provided to national bodies.
looking for qualified reviewers. Much as international firms undertake peer reviews of firms in other countries, members from sister accounting bodies could be invited to undertake peer reviews of each others members.

Summary

The pilot review schemes in Tanzania and Senegal introduced the concept of audit review to SSA and helped iron out practical difficulties in the review process. The pilot reviews were participatory, with national accounting bodies being involved in the reviews. The reviews were undertaken by Bank staff in conjunction with an expert with experience of carrying out a similar review scheme. The reviewers assessed the independence of the auditor, compliance with accounting and auditing standards, and made recommendations to the auditor on how to improve working procedures and standards. As well as providing feedback to the auditors who were reviewed, the reviews assisted the national body identify the areas in which its members need support.

The introduction of a review scheme for SSA auditors would provide an objective way of assessing the capability and independence of auditors, and would identify deficiencies which could be rectified. The two pilot reviews in Tanzania and Senegal were very successful, and showed that a quality review scheme could play an important role in improving the capacity of auditors in SSA. The pilots demonstrated that the type of review scheme that has been introduced in other countries can be easily adapted by accounting bodies in SSA to review the quality of auditing firms or state audit corporations.

Where the model scheme was less appropriate was in reviewing the work of the government auditors, who are not statutorily obliged to comply with national accounting and auditing standards. In reviewing the work of government auditors, a scheme could be devised which would use the standards adopted by the International Organization of Supreme Audit Institutions (INTOSAI). These standards are being accepted by an increasing number of supreme audit institutions, and would be the most appropriate criteria by which to monitor the quality of the work of the government auditor.
Quality Review is an educational and supportive service that assists auditors in maintaining and improving their professional standards. Its introduction has enhanced the reputation of auditors with the public and the business community. It has also demonstrated to governments that accounting bodies can be self-regulating and can ensure that accounting and auditing standards are adhered to. In most countries in SSA, the national accounting bodies are not strong, and do not carry out a monitoring role. Without effective monitoring, it is highly unlikely that accounting and auditing standards will be complied with. The introduction of a quality review scheme could assist national accounting bodies improve the standards of their members.

The main aim of government auditing is to ensure public accountability for government revenue and expenditure. Only through the annual report of the government auditor to Parliament can a country's citizens find out whether the public finances have been appropriately spent. As some countries in SSA are moving away from socialist-based economies, and parastatals are being sold, the role of the government auditor is becoming more important for prospective purchasers, who will look at the audited financial statements to establish the financial viability of the parastatal. The reviews could also enable parastatal monitoring bodies to have well-based confidence in the quality of parastatal audited financial statements.

The pilot review schemes in Tanzania and Senegal introduced the concept of audit review to SSA and helped iron out practical difficulties in the review process. The two pilot reviews were very successful; they showed that a quality review scheme could play an important role in improving the capacity of auditors in SSA. The pilots demonstrated that the type of review scheme that has been introduced in other countries can be easily adapted by accounting bodies in SSA to review the quality of auditing firms or state audit corporations.

The pilot reviews highlighted that government auditors are not subject to the same accounting and auditing standards as private sector auditors - their mandate as laid down by statute is different. Government auditors are rarely qualified auditors, and the national accounting body has little, if any, influence over their activities. The results of the pilots show that a quality review scheme established for private sector auditors is not necessarily appropriate for the public sector, and that national accounting bodies could have problems reviewing government auditors. A long-term development goal would be for government auditors to move closer to their private sector counterparts in terms of the quality of their training, and the standards adopted. In the meantime, however, a different set of review criteria will have to be established for government auditors.

**Benefits**

As poor compliance is often as a result of weak institutional capacity, the introduction of a review scheme could provide the basis for technical assistance to the auditor and the accounting profession. Reviews would apply to both the private and public sectors. They would assist in improving government and private sector auditing practices. This would have an effect on government, parastatal and company audits. Confidence in the quality of
the auditor would also improve confidence in the reliability of financial statements. The main purpose of the quality review systems now operating in countries around the world is to test whether auditors are doing their jobs properly and are observing high professional standards. A review system for auditors in SSA would have as one of its development goals the improvement of the quality of audit reports.

An important element of governance is transparency in financial accountability and management of resources. Strengthening governmental capability to manage its financial affairs would contribute to improved governance. The Bank could use a review scheme as a step toward improving better governance in its client countries. The introduction of a review scheme could highlight weaknesses and lack of transparency in accounting and auditing. The Bank could address this lack of accountability through supporting the development of the accounting and auditing profession in SSA.

Risks and Problems

There are some risks associated with the introduction of a review scheme. Some auditors will be defensive, and see such a review as threatening, others may be offended and refuse to participate. Lessons learned from the pilot show that these risks can be minimized through involving the auditors and the national accounting bodies at all stages of the review process. The review process itself would be participatory, the national accounting bodies would be invited to join the review teams, and there would be open dialogue between the reviewers and the auditor.

In most countries where review schemes have been introduced, the firms pay for the review, and the accounting bodies pay for the administration of the scheme. Many accounting bodies in SSA, however, do not have sufficient income to be able to hire full-time members of staff to undertake reviews, and administer the review process, and their members may not wish to cover the costs of the review. In addition, the reviews may reveal serious deficiencies which the accounting body may not have the capacity or resources to rectify. External assistance may be required to enable accounting bodies to introduce review schemes and provide the necessary support to help their members improve.

Next Steps

The concept of quality review has been successfully introduced into SSA through the two pilots and the issue of the Discussion Draft (Johnson 1992), which received wide support from the accounting profession. IFAC which represents some twelve accounting bodies in SSA is encouraging its members to introduce quality review schemes, and a number of these are making plans to establish review schemes. This report will be disseminated to all accounting bodies (national, international, and regional), government auditors, the donor community, and other interested parties in SSA. It is intended that the experiences described in this report can be utilized by bodies interested in introducing review schemes.

Introducing a review scheme is not easy, and as mentioned previously, external assistance may be required to enable accounting bodies to introduce such schemes. The Bank aims to work with accounting bodies to help them introduce review schemes. The Bank will collaborate with the bodies in undertaking reviews of their auditors, which will provide them with a foundation for the introduction of their own national review scheme. In addition, the Bank will follow up on the pilot quality reviews carried out in Tanzania and Senegal, and the progress made by the National Board of Accountants and Auditors to introduce its own review scheme. The results of these will be disseminated to all
accounting bodies and other interested parties through the form of a newsletter. Accounting bodies in SSA which introduce, or are thinking of introducing, review schemes will be invited to contribute their experiences to the newsletter.

Chapter 1 outlined many endemic problems facing the accounting and auditing profession in SSA. This report has concentrated on only one aspect of financial management: auditing. One of the conclusions of this report is that accounting and auditing will not improve in the private sector until there are stronger national accounting bodies able to provide technical support to their members, and in the public sector until the fundamental constraints of poor remuneration and lack of training are tackled. As a step toward improving accounting and auditing in SSA, the Africa Region of the World Bank is developing a Financial Accountability Program (FAP). FAP has an integrated approach and will address four areas of concern:

- **Accounting and Auditing Standards.**
  This component will review existing standards adopted in SSA and the extent of compliance. The results will be used to define how countries should approach the setting and adoption of appropriate accounting and auditing standards.

- **The Accounting Profession - Education and Training of Accountants.**
  This component will review the quality and effectiveness of accounting education. This analysis will provide new and fledgling accounting bodies and governments with advice on the best and most cost effective way of educating accountants and accounting technicians.

  - **The Impact of Information Technology on the Accounting and Auditing Profession.**
    The slow development of the accounting profession in SSA has limited the choice and availability of services offered by its members. Accountants and auditors are failing to keep up with the revolution in information technology, putting African industries behind their European and American counterparts. This component will review the education and training needs of accountants and auditors to enable them to obtain a good understanding of computerized accounting systems and their auditing.

  - **Public Sector Financial Management.**
    This component will examine government accounting and financial reporting practices, and determine ways of improving the reliability of financial data and encouraging adherence to fundamental accounting principles.

FAP will be undertaken in close collaboration with the accounting profession in SSA. The findings of FAP will be published in 1995, and will be disseminated to all accounting bodies, governments, the donor community and other interested parties in SSA.
Annex A: International Federation of Accountants, Statement of Policy of Council Assuring the Quality of Audit and Related Services

Introduction

IFAC’s Code of Ethics for Professional Accountants notes that “a distinguishing mark of a profession is acceptance of its responsibility to the public.” In today’s modern environment, many segments of society are increasingly dependent for decision-making on information over which they have no control. They turn to practicing accountants for assistance in assessing the credibility of some of that information. In this environment, every failure, whether actual or perceived, by an accountant to comply with professional standards and legal requirements makes it difficult for the profession to maintain the reputation for integrity, objectivity, and competence that it has acquired over its many years of service to clients, employers, and the public. Thus, IFAC believes that member bodies need to demonstrate that there are adequate self-regulatory programs in place to provide reasonable assurance that practicing accountants adhere to the highest standards in performing audit and related services. Since regulation of the accountancy profession is carried out cost efficiently and effectively by those dedicated individuals who comprise the profession, it is in the interests of the worldwide accountancy profession and the public it serves for member bodies to ensure the undertaking of this kind of self-regulatory effort and publicize the program.

Implementation of appropriate quality control policies and procedures is the responsibility of each firm of practicing accountants. For purposes of this Statement, a "firm of practicing accountants" is a proprietorship, partnership, corporation, or association engaged in providing audit and related services (presently, reviews of financial statements, engagements to apply agreed-upon procedures, and compilations of financial information) covered by International Standards on Auditing issued by IFAC. The task of encouraging and assisting firms of practicing accountants to maintain and improve the quality of audit and related services is primarily that of the member bodies in each country concerned. IFAC believes that the member bodies have the responsibility to take appropriate steps to achieve that objective in the legal, social, business and regulatory environment prevailing within their countries. IFAC’s role is to provide guidance, encourage progress, and promote harmonization. This Statement of Policy discusses the steps that can be taken to enhance quality control within accounting firms.

Objectives

It is not possible for a Federation document to outline all of the steps member bodies need to take to establish effective quality control standards and quality control
Member bodies should develop quality review programs designed to evaluate whether firms of practicing accountants have established appropriate quality control policies and procedures and are complying with them.

Member bodies should require firms of practicing accountants to make appropriate improvements in their quality control policies and procedures or in their compliance with those policies and procedures when the need for such improvement is identified. In cases involving failure to comply with relevant professional standards in the performance of audit and related services, appropriate corrective actions should be taken to prevent continued public reliance on inappropriate or misleading reports, and educational or disciplinary measures, as indicated by the circumstances, should be taken by the member body.

As a basic condition, IFAC emphasizes that implementation of an adequate self-regulatory program cannot be effected until the firms of practicing accountants in a country are bound by an appropriate code of ethics and by adequate standards governing accounting principles and engagements to provide audit and related services. The IFAC Code of Ethics for Professional Accountants, its International Standards on Auditing, and the International Accounting Standards issued by the International Accounting Standards Committee all provide guidance for such standards.

Establishing Quality Control Standards

Member bodies should promulgate or otherwise identify the standards against which the quality control policies and procedures of
firms of practicing accountants will be measured. Those standards should set out the objectives of quality controls. It is the responsibility of each firm of practicing accountants to implement policies and procedures that provide reasonable assurance of achieving those objectives, and to communicate those policies and procedures to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood.

The objectives and illustrative examples of general quality control policies and procedures set forth below are based on those in International Standard of Auditing, Control of the Quality of Audit Work (ISA7). IFAC believes that they are relevant to all audit and related services rendered by a firm of practicing accountants.

A. Personnel Qualities

Personnel in the firm should adhere to the principles of Integrity, Objectivity, Independence, and Confidentiality.

Quality control standards developed by member bodies should encourage firms of practicing accountants to adopt quality control policies and procedures that provide them with reasonable assurance that:

- The firm’s policies on matters involving integrity, objectivity, independence, and confidentiality as they relate to the various types of audit and related services provided by the firm are communicated to personnel at all levels within the firm.

- Questions on these matters are identified and resolved by individuals at appropriate management levels.

- Compliance with the firm’s policies and procedures relating to independence is monitored.

B. Skills and Competence

The firm should be staffed by personnel who have attained and maintain the skills and competence required to enable them to fulfill their responsibilities.

Quality control standards developed by member bodies should encourage firms of practicing accountants to adopt quality control policies and procedures that provide them with reasonable assurance that:

- The firm’s recruiting program will meet the firm’s personnel needs and that personnel hired by the firm, both inexperienced and experienced, will have integrity and the other attributes, achievements, and experiences necessary to enable them to perform with skill and competence.

- The firm’s continuing professional education (CPE) and training programs are carried out in compliance with guidelines designed to provide personnel with the knowledge required to fulfill their responsibilities and to progress within the firm.

- Personnel are informed about the responsibilities of their positions, counselled on a timely basis on their performance, progress, and career opportunities, and advanced to positions of greater responsibility in accordance with guidelines that give appropriate recognition to the quality of their work.

C. Assignment

Work should be assigned to personnel who have the degree of technical training and proficiency required in the circumstances.
Quality control standards developed by member bodies should encourage firms of practicing accountants to adopt quality control policies and procedures that provide them with reasonable assurance that:

- Appropriate consideration is given in assigning personnel to engagements to the workload requirements of an engagement, the skills and competence required by an engagement, the experience and competence of personnel in relation to the complexity or other requirements of an engagement, the extent of supervision to be provided, and other relevant factors.

- Assignment decisions are made by individuals charged with that responsibility, with the approval of the individual responsible for the conduct of the specific engagement.

D. Direction and Supervision

There should be sufficient direction and supervision of work at all levels to provide the firm with reasonable assurance that the work performed by the firm meets appropriate standards of quality. Whenever necessary, consultation should be made with those who have appropriate expertise.

Other appropriate procedures for maintaining the firm's standards of quality, such as policies and procedures for the conduct of the work, standardized forms, checklists and questionnaires, and procedures for resolving differences of professional opinion, are complied with.

- Personnel consult with or use authoritative sources on specialized, complex, or unusual matters; to that end, situations requiring consultation and the persons or sources to be consulted should be identified, appropriate reference libraries should be maintained, and the extent to which consultation should be documented should be specified.

- Appropriate on-the-job training is provided.

- Guidelines for the review of the work performed and of the work product are complied with; such guidelines should deal, among other things, with the qualifications of the reviewer, the documentation of the review, and the types of situations that call for a review by an individual having no other responsibility for the engagement.

E. Acceptance and Continuation of Clients

The firm should carry out an evaluation of a prospective client prior to acceptance and should review, on an ongoing basis, its association with present clients. In making a decision to accept or continue with a client, the firm should consider the nature of the work contemplated by the engagement, circumstances that would cause the firm to regard the engagement, as one requiring special attention or presenting special risks, its
own independence (where required), its ability to service the client properly, and the integrity of the client's management.

Quality control standards developed by member bodies should encourage firms of practicing accountants to adopt quality control policies and procedures that provide them with reasonable assurance that:

- Present and prospective clients are evaluated consistently against guidelines relevant to the firm and its practice by individuals at appropriate management levels.
- Procedures for identifying and addressing conditions that would have caused the firm to reject a client had such conditions existed at the time of initial acceptance are adequate and are complied with.
- There is a clear understanding with clients about the objectives, nature, scope and limitations of an engagement, ordinarily through preparation of an engagement letter.

**F. Inspection**

_The firm should monitor the effectiveness of its quality control policies and procedures._

Quality control standards developed by member bodies should encourage firms of practicing accountants to adopt quality control policies and procedures that provide them with reasonable assurance that:

- The scope and content of the firm's inspection program are appropriately defined in relation to the size of the firm, the nature of its practice, the degree of operating autonomy allowed its personnel and operating offices, and other procedures followed by the firm, such as a "cold" review of working papers and reports, that assist the firm in monitoring compliance with other quality control policies and procedures.

- The inspection program is carried out by personnel with the necessary competence and experience.
- Corrective actions indicated by inspection findings are implemented on a timely basis.

**Providing Other Quality Control Guidance**

Member bodies should consider whether firms of practicing accountants in their countries need other assistance to understand the objectives of quality control and to implement appropriate quality control policies and procedures. Assistance can be provided in various forms, depending upon the needs within a country. Examples are listed below:

- Developing guidelines for comprehensive CPE programs that may be useful to firms in planning, or evaluating the adequacy of, their in-house training.
- Providing CPE programs to firms and sole practitioners that do not have the resources to develop their own internal programs, including programs specifically directed to the implementation of quality control policies and procedures.
- Mandating CPE when it appears that would be effective in assuring that all practicing accountants obtain adequate training.
• Providing guidelines for the conduct of effective internal inspection programs.

• Implementing voluntary programs that would enable firms of practicing accountants to obtain an independent, confidential assessment of their quality control policies and procedures, apart from any formal program of quality review.

When firms of practicing accountants have made reasonable progress in implementing quality control policies and procedures, including internal inspection programs, member bodies will be in the best position to institute effective quality review programs. Nevertheless, member bodies should consider implementing a quality review program for firms of practicing accountants when it is perceived that firms have not made reasonable progress in a reasonable period of time in implementing quality control policies and procedures.

Establishing a Quality Review Program

The steps taken by a member bodies in establishing a quality review program will vary substantially, depending on the conditions in the country relative to the development of standards for audit and related services and on the extent to which the concept of quality review has been accepted in the country. In addition, the organization and structure of the program will vary depending on the extent of preexisting government involvement in the regulation of the profession and in the licensing of professional accountants. However, member bodies planning to establish a quality review program needs to reach decisions on the following matters, among others.

The first major consideration is the scope of the program itself and whether it is voluntary or mandatory. A voluntary program can only be fully effective if it has universal support. If the program is mandatory, firms of practicing accountants may be selected for quality review on a test basis based, for example, upon a random selection or upon the nature and size of their practices, or all firms may be reviewed over an established period of time. Factors that should be considered in reaching a decision on the scope of a quality review program include the extent to which all firms of practicing accountants provide audit and related services and the effect this may have on the costs and benefits of the program; the perceived quality of the audit and related services provided by firms of practicing accountants; governmental, regulatory, or media criticisms of the quality of professional services; the extent to which proposals for quality review programs appear to be supported by the profession or demanded by others; and the cost of the program in relation to the financial strength of the practicing profession and of the member body itself.

When all firms of practicing accountants are to have quality reviews in a given country, steps can still be taken to control the costs without loss of effectiveness. In particular, the program can be implemented over a reasonable number of years, for example, beginning with large firms with more extensive audit and related services, as to which there may be greater public reliance. During that phase-in period, the member body would continue educational efforts to help smaller firms develop effective quality control policies and procedures and to prepare for review. At the same time, it would be prudent for the member body to use its best efforts to communicate to government and to the public the extent of this required commitment by the profession to maintain and improve the quality of audit and related services.

When the quality review program in a country is carried out on a test basis, IFAC believes that it is important that all firms of practicing accountants that provide the audit and related services to be reviewed should face
the possibility of having their work selected for review.

The second major consideration is whether the review will report on the quality control policies and procedures established by the firm, or whether the report will address only the work product of the firm. In the first instance, the review must be conducted at the offices of the firm so that the reviewer can assess the suitability of the firm’s policies and procedures and its compliance with them, review the work performed on selected engagements, and discuss related matters with firm personnel. In the second instance, personal visits to a firm may not be necessary.

Personal visits to a firm to conduct a quality review should produce the most benefit to the firm and to the public. Accordingly, this approach should be taken wherever possible and appropriate. However, if the circumstances in a country make this approach impractical for some or all firms, off-site reviews of a firm’s work product, including review of selected working paper files if necessary, can provide a low-cost means of identifying firms that are in significant need of assistance in meeting their professional responsibilities.

The third major consideration is whether the reviews are to be conducted by practicing accountants, by employees of the member body, or by non-practicing accountants engaged by the member body.

The services rendered by firms of practicing accountants require a comprehensive knowledge of professional standards and, in many cases, legal, regulatory, and tax requirements. They usually call for knowledge of the client’s business and of matters affecting the industry in which the client operates, such as economic conditions, government regulations, and changes in technology. They may involve special expertise in matters as diverse as, for example, hedging transactions, and valuation methods. Practicing accountants would ordinarily be expected to have current knowledge of such matters and, therefore, should be well suited to carry out quality reviews of other firms of practicing accountants. Reasonable oversight procedures can be adopted, if necessary, to provide added assurance that quality reviews are being carried out in an independent, objective manner.

If it is determined that quality reviews should be carried out by professionally qualified employees of the member body or by non-practicing accountants engaged by the member body, care should be taken to ensure that the individuals involved have a current knowledge of applicable professional and quality control standards and the manner in which those standards are generally implemented by firms of practicing accountants. Such individuals should also be instructed in the need to carry out their procedures, wherever possible, in a manner that elicits full cooperation from the firms being reviewed, and to maintain the confidentiality of client information.

The number of alternative approaches that exist make it evident that each member body will have to agree upon the alternatives appropriate to it and see to publication of its program in the form of reasonably detailed standards and procedures. In that connection, IFAC believes that it is important for a successful quality review program to have standards that address at least the following matters:

- Maintaining the confidentiality of client information.
- Assuring the independence and objectivity of reviewers.
- Assuring that reviewers have the technical skill and knowledge and the specialized experience to perform the review with professional competence.
• Documenting the review procedures followed in a manner that permits an objective assessment of whether the review was performed with due care and in compliance with its standards.

• Reporting the findings of the review in a manner that assists the reviewed firm in identifying and implementing any necessary corrective actions and in making other desirable improvements in its quality control policies and procedures.

• Requiring, where applicable, the imposition of added corrective, educational, or monitoring procedures pursuant to guidelines that assure that firms will be treated fairly and consistently. Examples of such procedures are requirements for changes in certain quality control policies and procedures, for specified continuing education, or for revisits by reviewers to obtain assurance that corrective actions planned by the firm have been appropriately implemented.

• Imposing disciplinary measures on firms that refuse to cooperate in the conduct of the review, in taking necessary corrective actions, or that are found to have serious deficiencies that cannot be dealt with in a meaningful way by remedial or educational measures.

Member bodies establishing a quality review program will also need to develop specific administrative procedures to guide the selection of review teams, to monitor the progress of reviews, to evaluate the performance of review teams, and to deal with the resolution of differences of professional opinion on matters related to the review, among other things.

Finally, the number of tasks enumerated above, and each member body implementing a quality review program will identify many others, makes it evident that careful advance planning, committed members, and a qualified staff comprehensive training and communication programs are essential to success.


Annex B: Review Schemes

Many countries have voluntarily introduced schemes, but in others governments have enforced regulation. This annex describes the operation of the review schemes listed below.

- The Australian Society of Certified Practising Accountants
- The Institute of Chartered Accountants of Ontario
- The Hong Kong Society of Accountants
- The Institute of Chartered Accountants in Ireland
- The New Zealand Society of Accountants
- The Chartered Association of Certified Accountants
- The Institute of Chartered Accountants in England and Wales
- The American Institute of Certified Public Accountants
- The Office of the Inspector General.

The Australian Society of Certified Practising Accountants (ASCPA)

ASCPA commenced its Quality Assurance Program in January 1993. The Program has been introduced as part of the continuing self-regulatory practices of ASCPA to enhance the quality of services provided by its members, and monitor compliance with professional standards by members in practice. The review is much broader than those of other bodies, and includes all areas of practice: audit; taxation; accounting; financial advice; management consultancy; and insolvency. Initially, the reviews will concentrate on the policies and procedures in place to ensure compliance with professional standards. ASCPA would like to extend the review to include a comprehensive practice assessment, but it is experiencing some problems, in that confidentiality issues and legal constraints are curtailing the Society’s access to working papers. Reviews will take place every five years. ASCPA has some 4,400 members to review.

The Institute of Chartered Accountants of Ontario (ICAO)

In Canada, each of the three main accounting bodies has its own national body which is responsible for national examinations and, in the case of the Canadian Institute of Chartered Accountants (CICA), setting accounting and auditing guidelines. The day-to-day running of the accounting bodies is delegated to the provinces. Programs such as practice inspection are the responsibility of the provincial institutes. The national bodies have not laid down any guidelines for the conduct of practice inspection and these programs can vary from province to province. Practice inspection in Canada began in Quebec as a result of concerns by the Quebec government that professional bodies might not be serving the public interest. Legislation was passed in 1974 in Quebec to ensure that all professional bodies established inspection programs for their members. In 1980, ICAO became the second provincial body to introduce a practice inspection program. The program of ICAO has become the model for other review schemes.

In 1972, CICA established a committee to consider professional development. The committee considered a number of areas for inclusion in a professional
development program, such as the need for members in public practice to undergo a quality review, and the need for a system of mandatory professional development. As self regulation of the Canadian profession rests with the provincial institutes, CICA referred the report to the provinces. ICAO considered the matter of mandatory professional development, and concluded that it offered no assurance that a practitioner was observing professional standards. ICAO was, however, interested in the concept of practice inspection. ICAO spent some four years researching and discussing the subject with members before carrying out a formal membership ballot in 1980. Two-thirds of the membership voted in favor of the introduction of practice inspection, and the program's first four-year cycle of inspection started in 1981.

The purpose of the Institute’s mandatory program is to assure the public that all members engaged in public accounting, whether on a full or part-time basis, are maintaining an appropriate level of professional standards. All practitioners are subject to practice inspection. Even members who only audit a charity for no fee are inspected. The main thrust of the program is educational. Members are expected to maintain the standards detailed in the CICA and ICAO Handbooks. Through a review of a sample of current accounting and auditing engagement files practice inspectors seek to identify whether members have adhered to those standards. ICAO has 24,000 members, 8,000 of whom are in full-time practice and 1,000 in part-time. ICAO undertakes 700 inspections a year.

The Hong Kong Society of Accountants (HKSA)

HKSA is one of the latest accounting bodies to introduce a review scheme which it calls Practice Review. HKSA first proposed introducing practice review in late 1989 as a result of criticism from the users of financial statements that the same professional standards did not seem to apply to all firms of CPAs. In response, the Council of the Society proposed the introduction of practice review for two main reasons: (a) to enable HKSA to become aware of any member who is not maintaining high professional standards; and (b) to assure users of financial statements that all CPAs are of equal standing and that the same level of work would have been done by any auditor.

Further research was undertaken and an outline of the Practice Review scheme was produced as a consultative paper which was distributed to members in July, 1990. Members were given the opportunity to comment and some 200 (out of a total membership of 5,500) did. Most of those opposed the introduction of the scheme. To convert those members, the Society published a response paper in November, 1990 dealing with the criticisms raised, and held two meetings to explain the background and philosophy of Practice Review. In February, 1991 HKSA held a ballot of members on whether to introduce a scheme. It was supported by the majority of members voting and the resolution was passed. The first reviews were carried out in September, 1992.

HKSA defines Practice Review as a system to be operated by the Hong Kong Society of Accountants whereby reviewers engaged by the Society will visit the office of a certified public accountant to review the internal controls and procedures adopted for an audit by the practice so that the Society can be generally satisfied that the member has properly performed and recorded his/her work at the required level" (HKSA 1990). The main objective of Practice Review is to ensure that all members in public practice maintain, observe and apply professional standards. In cases where a member is found not to be maintaining professional standards, the Society will work with the member to improve the working procedures. The government of Hong Kong recognizes that a high level of auditing standards is essential to the commercial and financial health of Hong Kong, and to its status and position as an international center.
Review Schemes

for financial and professional services. The government therefore supports the Practice Review program which it believes will make a useful contribution to the stability and prosperity of Hong Kong. Practice units will be reviewed once every four years, and HKSA hopes to complete between 100 to 150 reviews each year.

The Institute of Chartered Accountants in Ireland (ICAI)

ICAI introduced its Practice Review Program in 1987 after four years of consideration. During the 1970s and 1980s, many new accounting and auditing standards were introduced, and ICAI believed that practice review would be a way of ensuring that the new standards were being adhered to. The aim of the review process is to raise standards by encouraging members and supporting them in their endeavors. ICAI also sees the review program as an excellent way to improve communication between the Institute and its members. When ICAI introduced Practice Review in 1987, it stated "The main purpose of practice review is to ensure that all chartered accountants in practice are maintaining an appropriate level of professional standards in the performance of accounting and auditing standards. The system is intended to achieve the following advantages:

- It will be an educational and supportive service and will assist practitioners in maintaining and improving their professional standards.
- It will enhance our reputation with the public and business community in that we will be the only body of accountants whose members subject themselves to mandatory review of their standards. This competitive advantage will be highlighted in promoting the chartered accountant.
- It will demonstrate to Government our intent to carry out our responsibility as a self-regulating body in ensuring that established Accounting and Auditing Standards are being adhered to by our members.
- It will put us in a stronger position to influence the direction of regulatory involvement by Government in the activities of our members, particularly as regards the audit function" (ICAI 1987).

Under the Institute's Practice Review Program members are reviewed at least once every five years. ICAI has 1,700 practicing members to review in 1,100 firms. ICAI undertakes about 300 reviews each year.

The New Zealand Society of Accountants (NZSA)

NZSA introduced Practice Review in 1990 to monitor and improve professional standards. The emphasis of the program is educational. Its objective is to ensure that accounting and auditing standards are being adhered to, and that auditors comply with statutory requirements regarding presentation of accounts. The reviewer checks whether the firm's internal controls can be relied upon, and tests the controls by reviewing at least one audit, one compilation, and one review file per partner. NZSA has some 2,500 practicing members in 1,160 firms to review, and by late 1992 over half of the practitioners had been reviewed. Reviews take place every five years.

The United Kingdom

The Financial Services Act, 1986. The United Kingdom is one of the few countries to have regulation forced upon it. Two pieces of legislation have affected the U.K. accounting profession; the Financial Services Act, 1986 and the Companies Act, 1989. Under Section
3 of the Financial Services Act, 1986 "no person shall carry on, or purport to carry on, investment business in the United Kingdom unless he is an authorised person ... or an exempted person..." Both the Chartered Association of Certified Accountants (ACCA) and the Institute of Chartered Accountants in England and Wales (ICAEW) have been approved by the Department of Trade and Industry (DTI) as recognized professional bodies (RPB), under the Financial Services Act, and are able to authorize firms to carry out investment business. In their capacity as RPBs they are required to monitor the firms that they have authorized and enforce compliance with their investment business rules. The DTI is looking to raise audit performance, and the obligation to undertake monitoring visits is an important and compulsory part of the self-regulatory system created by the Act. Monitoring covers the eligibility of those firms and the investment business they carry out. For those firms authorized to hold investment business client money or custodial investments, the Securities and Investment Board (SIB) requires that they are visited once every two years. Other firms are required to be visited only once every five years.

The Companies Act, 1989, which implemented the EC Eighth Company Law Directive on the Qualification of Auditors, introduced changes in the authorization and regulation of the audit function. Under the Act, an individual, partnership or body corporate is only eligible to act as company auditor if it is registered with a recognized supervisory body (RSB). The function of a RSB is to lay down rules and practices governing all key aspects of auditing and to administer and enforce them. The rules and practices must cover (a) the management and control of audit firms; (b) the fit and proper status of audit firms; (c) the conduct of audit work; (d) independence; (e) the maintenance of competence; and (f) the ability to meet claims arising from audit work.

RSBs are required to establish and maintain a register of individuals and firms eligible to be company auditors, and monitor and enforce compliance with the rules. Both ACCA and ICAEW have been approved by the DTI as RSBs. All those registered with a RSB are entitled to use the description 'Registered Auditor.' Part II of the Act, which deals with the registration of auditors, came into effect on October 1, 1991. From this date, only a registered auditor is eligible to accept appointment as company auditor. It is a criminal offence for a person falsely to describe himself as a registered auditor. The DTI will review the monitoring procedures of ACCA and ICAEW after the first eighteen months of operation.

The Chartered Association of Certified Accountants (ACCA)

ACCA and ICAEW have chosen to follow different routes for registration under the Companies Act. ACCA registers both individuals and firms, whereas ICAEW registers only firms. All ACCA members who hold U.K. practicing certificates and firms holding auditing certificates come within the scope of the monitoring.

Under the Companies Act, ACCA monitors and enforces its bye-laws and regulations by analyzing practitioners’ annual returns and carrying out monitoring visits. Monitoring visits take place normally once every five years, although there may be more frequent visits in the event of complaints or significant changes in a practice. Additional visits or follow-up action may also result from a visit which revealed inadequacies. The principal checks are on the firm’s arrangements to comply with the Association’s rules and guidance, and on practice management to ensure that client’s affairs can be dealt with properly. For example, checks are made to verify that appropriate file material exists for each client, and that there is a
preview of each audit, that all relevant checks and verifications are carried out and that, depending on the size of the client, a proper review is undertaken and adequate internal cross-checks are made. Monitoring includes examination of the working papers. The length of the visit depends on the number and size of clients and other factors.

The Institute of Chartered Accountants in England and Wales (ICAEW)

ICAEW, through the Joint Monitoring Unit (which acts on behalf of the three Institutes of Chartered Accountants, of England and Wales, Ireland and Scotland) monitors and registers firms, not individuals. ICAEW requires all firms to submit an annual return for review, which checks whether the firms continue to meet the eligibility criteria. In addition, all firms who audit listed companies will be visited every five years. JMU will monitor all other firms on a test basis (about 150 firms per year will be visited under this regulation). JMU may also be asked to visit a firm which is the subject of a complaint. Unlike ACCA, ICAEW will not see every firm once every five years. JMU monitors registered auditors as well as investment businesses. JMU will monitor some 6,500 firms authorized to carry out investment work, and some 10,000 firms seeking registration as company auditors. The work of JMU focuses on the way that firms control the quality of their audit work, including compliance with auditing standards, the procedures used to maintain integrity, independence and competence of audit partners and audit. By September, 1992, 300 visits had been started.

The American Institute of Certified Public Accountants (AICPA)

In 1968, the Council of AICPA approved the establishment of a voluntary program whereby firms could obtain confidential reviews of accounting and auditing engagements. The reviews commenced in 1971, and by 1976 AICPA had reviewed over 300 firms. In 1977, after much debate in the Institute, the Division for CPA Firms was established. This resulted in the creation of two sections: the Private Companies Practice Section (PCPS) and the SEC Practice Section (SECPS). Each section was given the authority to administer a peer review program. The voluntary program was continued for those firms that did not wish to join the Division. In 1990, after balloting its members, AICPA introduced mandatory peer reviews for firms performing audits of SEC registrants. In addition to the peer review program, AICPA established a Quality Review Executive Committee in 1988 after a membership ballot voted 76 percent in favor. The Quality Review Executive Committee issues guidelines, programs and checklists for use in administering and carrying out quality reviews. By 1990, over 38,200 firms had enrolled in the quality review program, and by the end of 1991, over 15,000 reviews had been undertaken. Periodic quality review of accounting and auditing practices is a condition of AICPA membership.

AICPA holds that if the profession can show that peer and quality reviews protect the public interest, then those interested in government control can be deterred. The review focuses on the four main elements of quality control: independence; supervision; consultation; professional development. Quality and peer reviews are principally a learning experience. The improvements many firms have made between their initial and most recent reviews have demonstrated that firms can and have raised their performance. Independent reviews have been effective in identifying substandard practice and helping firms to improve their quality.
Office of the Inspector General (OIG)

The Inspector General Act of 1978 requires the Office of the Inspector General to ensure that the nonfederal audits of the programs and operations of the Federal Departments, which are carried out by state or local auditors and individual private auditors, are conducted in accordance with the government Auditing Standards. To ensure that this happens, reviews are conducted of the audit report and the working papers by staff in the regional offices of OIG. Reviewers check the auditor's qualifications, independence and level of professional care as well as the standard of audit planning, supervision and quality controls. Policy, procedural and technical guidance is provided to the regional staff from the headquarters of the Office of the Inspector General to guarantee consistency. The work of the Office of the Inspector General is the only example of government auditors being reviewed. Surprisingly, OIG has found little opposition. The auditors are aware that their reports will be reviewed and are cooperative. In fact, the reviewers have found that the state and local auditors do a better job than private accountants.
Annex C: Reviewers

The Australian Society of Certified Practising Accountants (ASCPA)

ASCPA will be producing a professional standard outlining the requirements for appointing reviewers, and the conduct of reviews. Reviewers will be members of ASCPA or the Institute of Chartered Accountants in Australia. All reviewers will be members currently working in or recently retired from a practicing firm. Reviewers will be required to undergo a course on conducting quality assurance reviews. ASCPA will draw up a list of reviewers from which firms will be able to choose. The reviewers are not members of the Society’s staff.

The Institute of Chartered Accountants of Ontario (ICAO)

The Institute has four full-time inspectors, thirty-two part-time inspectors, three part-time inspectors and two part-time detailed reviewers. Full-time practice inspectors are members of the Institute staff, part-time inspectors are usually members engaged in full-time practice at a senior level. Part-time inspectors and reviewers serve for terms of up to five years, and undertake between ten to thirty days of inspection work each year. There is a reasonable turn-over in inspectors, and ICAO recruits between eight and ten new inspectors each year. Interested members are required to undergo a thorough screening. In order to assess an applicant’s technical skills, a review is made during the interview of a set of financial statements and a working paper file for which the applicant is responsible. Before being given any practice inspections, all new inspectors undertake a three day training course, where they complete a difficult case study, before being given a one-year contract. One-day refresher courses are also held for existing inspectors. Initially, new inspectors undertake desk reviews of part-time practices, which are reviewed by the Institute’s full-time inspectors, before they undertake on-site office inspections. ICAO has developed its own practice inspection manual which gives the inspector an overview of the inspection process. Full-time members of staff and technical reviewers assist in ensuring consistency.

The assignment of inspectors is the responsibility of the director of practice inspection. When the initial arrangements are made, the practitioner is asked to indicate a preference for a full- or part-time inspector. Where a part-time inspector is requested, an attempt is made to assign an inspector who has a practice of a similar size and type of clientele as that of the practitioner being inspected. Where possible, a part-time inspector is not assigned to an inspection in his or her community. The name and brief résumé of the assigned inspector is sent to the practitioner with a letter confirming the appointment. The practitioner has ten days in which to object to the proposed inspector.

In choosing part-time inspectors ICAO looks for:

- A member in good standing, who is in full-time practice, with a minimum of three to five years experience at a senior level.
- Excellent communication skills with particular emphasis on an ability to use tact and diplomacy when dealing with fellow members.
- Strong technical proficiency in auditing and accounting with flexibility to adapt to varying circumstances.
Quality Review Schemes for Auditors in SSA

The Hong Kong Society of Accountants (HKSA)

In order to ensure confidentiality and independence, HKSA will be appointing two full-time reviewers who will be members of the Society’s staff. In Hong Kong, many practitioners know each other, and most of them are direct competitors. It was realized that using local practitioners might cause concerns over lack of independence. To avoid this issue and to ensure that the Society had control over the quality and consistency of the reviewers work, the Society decided to employ its own reviewers. These reviewers will be subject to very strict confidentiality requirements. Under the Professional Accountants (Amendment) Ordinance, 1992, reviewers may be subject to a fine of HK$100,000 (US$12,850) plus imprisonment for six months if found guilty of contravening the security provisions.

Members of HKSA were particularly concerned about the quality of the reviewers. To allay members’ fears, the Society agreed to establish a selection panel for recruiting reviewers consisting of a cross-section of practitioners, including smaller practitioners. The panel’s broad objective is to select individuals who have gained experience in both small and large firms. The reviewer’s personal characteristics will also be important because of the type of work involved, and the panel will exercise judgement in this area.

The New Zealand Society of Accountants (NZSA)

NZSA has appointed two full-time employees to act as Director and Deputy/Director of the Society’s Practice Review Program. In addition to the full-time members of staff, NZSA has appointed four members who will undertake the reviews on a contract basis. The Society expects that two of these will work full-time. All reviewers have had substantial experience in a practicing accounting firm.

The Chartered Association of Certified Accountants (ACCA)

ACCA currently has six compliance officers in its Practice Regulation Department, and intends recruiting another three. ACCA has not introduced any formal staff training in review procedures. Training is on-the-job, and a new compliance officer attends several monitoring visits with an experienced compliance officer before undertaking a solo visit. The head of department undertakes a technical review of the compliance officers findings to ensure consistency.

The Institute of Chartered Accountants in Ireland (ICAI)

Currently, the Institute has four full-time reviewers, including the head of department. All reviewers are members of the Institute, with substantial experience in practice. Given the size of the country, the Institute decided to appoint full-time reviewers, for greater independence.

The Institute of Chartered Accountants in England and Wales (ICAEW)

JMU has a team of forty inspectors (including eight senior inspectors and four regional controllers) and ten technical reviewers to assist in the monitoring process. All inspectors are full-time employees. JMU ran two three-week residential courses for new reviewers serve for only a two-year term as after this period they could become institutionalized, and lose touch with current developments in accounting and auditing.
inspectors to introduce them to the review methods and to ensure that they have the personal skills needed to undertake an effective review.

The American Institute of Certified Public Accountants (AICPA)

A review may be conducted by:

- A team formed by a CPA State Society or AICPA Quality Review Division (a committee appointed review team or CART).
- A firm engaged by the firm under review (a firm-on-firm review).
- An association of CPA firms that is authorized to form review teams (an association review).

Whatever the team, the review format does not differ.

CART

Committee Appointed Review Teams are formed randomly by accessing the database of reviewers maintained by AICPA. The computer matches a firm's specialties with those of potential reviewers. The reviewers will not be from the same geographic area as the firm being reviewed unless the firm requests otherwise. Under this option, the administering entity is responsible for selecting the review team. If there are adequate reasons, however, the firm being reviewed may reject the chosen reviewers. Once the review team is chosen, the firm being reviewed is asked to sign an agreement letter which includes an estimate of the number of hours to perform the review and the billing rate of the reviewers. Rates are set by the administering entity, not the reviewer. This type of team gives the firm the opportunity to get a cross-section of ideas from several CPA firms.

Firm-on-Firm Review

Under this option, the firm being reviewed arranges for another qualified firm to perform its review. This option gives the firm a degree of personal assurance that the reviewer will provide the firm with helpful inputs, and it gives the firm more direct control over the cost. It can also minimize possible concerns over competition from reviewers, and reduce the danger that the reviewers may use their knowledge to attempt a merger or acquisition. State CPA societies and AICPA maintain lists of firms interested in performing firm reviews.

Association Review

A firm may ask an association of CPA firms of which it is a member to form its review team or to assist it in finding a member of the association interested and qualified to perform its review. An association that wishes to assist its members in arranging and carrying out quality reviews must be authorized by AICPA.

When the Quality Review Program was established, AICPA initially asked all members who were partners in accounting firms whether they would be interested in becoming reviewers. Since then, AICPA has advertised in its journal for interested members to become reviewers. Reviewers must be CPAs and AICPA members with at least five years experience in accounting and auditing. They must be good with details and have excellent communication and people skills. AICPA has found that members who have successful practices are good reviewers. AICPA does not use full-time reviewers or academics as it feels they are out of touch with current developments in practice. AICPA has a bank of some 7,000 reviewers of whom about 50 percent were used during 1991. New reviewers attend a two day introductory course; an annual one day refresher course is held for existing reviewers.
The Office of the Inspector General

All reviews are carried out by full-time auditors in the regional offices of the Inspector General. To help ensure consistency, headquarters staff provide policy, procedural and technical guidance to the regional staff. Meetings are held once a year with all headquarters and regional staff to discuss problems that have arisen during the year.
Annex D: The Review Process

The Australian Society of Certified Practising Accountants (ASCPA)

Until the confidentiality issue is resolved, the review will primarily be based on the Society's standards 'Statement of Quality Control Standards' and 'Quality Control Policies and Procedures', as they relate to the practice as a whole as well as other specific standards that relate to individual areas of public practice. Once access to working papers is available, the reviewer will undertake an inspection of a sample of working files. Where reviews result in an unsatisfactory finding, remedial action will be recommended, and the practitioner will be subject to a re-review. Where serious deficiencies are found further disciplinary procedures will be undertaken.

The Institute of Chartered Accountants of Ontario (ICAO)

All members in an office are inspected at the same time. The practicing unit is given at least thirty days written notice of the inspection. Before the inspection, a questionnaire is sent to the practicing unit requesting basic data, including an outline of its quality controls. The program for the visit is developed from the information in the questionnaire. When an inspection is being arranged, the inspectee is given the opportunity to indicate a preference for a full or part-time practice inspector. National firms tend to prefer the Institute's full-time practice inspectors. Many firms will have established policies and procedures for maintenance of standards. The inspector will assess these to determine the number of engagement files to review. The number to be reviewed can be reduced if quality controls are in place; there is no requirement for a member to document quality controls. Although documentation is strongly recommended by ICAO, the cost of imposing documentation in all cases is seen to exceed the benefits. The number of files inspected is based on guidelines established by the Practice Inspection Committee. The specific files inspected are determined by the inspector.

The inspector will have an initial meeting with the practicing unit's representative to explain the objectives of the program and the details of the inspection visit. The inspector will review financial statement presentation, performance of audit and non-audit engagements, the quality control systems of the firm, and its staffing. The inspector will undertake compliance tests to see whether the unit's quality controls are sufficient. Where quality controls are insufficiently documented, each practicing member is considered separately. The number of current engagement files to be reviewed will depend on the results of the compliance tests and the number of members.

On completion of the visit, the inspector prepares a draft report of findings together with any suggestions for improvement, and discusses them with the member. The member's comments are added to the report. The inspector advises the member of the recommendation that will be made to the Practice Inspection Committee. If the unit agrees with the findings, any intent to remedy the deficiency is also recorded. The inspector can recommend that: (a) no further action be taken; (b) the member should be reinspected in one year to see whether the problems identified have been rectified; or (c) the member should be reported to the Institute's Professional Conduct Committee. During the visit, the inspector also makes an assessment of the office's authority to train...
students. An average inspection for a sole practitioner takes an inspector one day, and for a larger firm, two inspectors will spend about one and a half weeks. For small firms or part-time practitioners, ICAO may undertake an off-site desk inspection after reviewing the firm’s list of clients.

Within a week of completing the work the inspector will send the material to ICAO. A copy of the report is sent to the member who has twenty-one days to review the report and make any additional comments. The inspector prepares a final report in the light of the comments made by the practicing unit. After any additional comments by the practicing unit have been received (or the twenty-one day period has elapsed) the inspection file and report are reviewed in detail by one of the full-time practice inspectors or part-time detailed reviewers to ensure consistency. As a result of a detailed review, items may be considered for addition or deletion. Changes will only take place after consultation with the inspector. Where additions or deletions are made, the inspector will contact the practicing unit to review the points raised and obtain comments. After the detailed review, the report and file are given a final review by at least one member of the Practice Inspection Committee who recommends the action the Committee should take.

Where there is a recommendation for re-inspection or referral to the Professional Conduct Committee, the file is sent to a second committee member for a further recommendation. The report is presented to the Practice Inspection Committee. Where the Committee determines that a significant improvement is needed, it may decide that re-inspection is required within one year. If however, the Committee finds that failure to maintain professional standards is sufficiently serious, the Committee will report the member to the Professional Conduct Committee for its independent investigation. In the vast majority of cases, no further action is required. On completion of this process, the Director of the Practice Inspection Program writes to the member with the decision of the Committee. The practice inspection program is separate from the Institute’s disciplinary process. The Practice Inspection Committee is not a tribunal and does not impose sanctions. Its role is to help protect the public interest through education. Only when the Practice Inspection Committee finds that the professional competence of a member is in doubt does it refer the matter to the Professional Conduct Committee. Since the practice inspection process is investigative, not a tribunal requiring a hearing and not resulting in possible sanctions, there is no appeal process.

The name of the practicing unit is kept from the Practice Inspection Committee. When an inspection has been reviewed, and no further action is required, all inspection material is destroyed. The only data retained is evidence that an inspection took place, and that no further action was required. Where further action is required, the files are retained for as long as necessary. The whole process can take up to six months. Any problems can be followed up by the Institute’s Practice Advisory Service which can assist members to make any necessary improvements. If no improvement is made, the Committee will refer the member to the Professional Conduct Committee.

The Hong Kong Society of Accountants (HKSA)

Every accounting firm, part-time, sole proprietor or partnership is considered a practice unit. All partners in a practice unit active in carrying out audits are reviewed at the same time. A practice unit is reviewed every four years. The purpose of Practice Review is to ensure that the audit has been
carried out in accordance with Auditing Standards and Guidelines.

Practice review is intended to be educational and to help practicing members improve their professional standards. It is not the intention to challenge the auditor's judgement over the audit conclusions reached. Tax and other records are not reviewed. The firm may remove from the audit file any documents considered non-essential for audit purposes. The files are selected by the reviewer from a coded client list provided by the practice unit. Firms found to be unsatisfactory are subject to a follow-up review six to twelve months after the initial review.

The Registrar makes an annual random selection of practice units to be reviewed. Six weeks before the review is scheduled, the practice unit is asked to complete and return a Practice Profile Questionnaire giving basic data about the practice and an Internal Control Questionnaire which covers the controls and audit procedures of the practice. The practice unit is given two weeks notice of the audit files that will be selected. The selection is made by the Practice Review Director from the client list provided by the practice unit. The reviewer visits the practice unit and reviews the administrative and environmental aspects of the practice and selected audit files. The number of files to be reviewed will depend upon the degree of reliance, if any, that can be placed on the internal quality controls and the size of the practice unit.

It is expected that one file per partner will be selected for review, and that a sample of about four files per practice unit will form the basis of the substantive tests on files. The reviewer does not expect to see the same level of internal control in a small firm as in a large firm. The reviewer performs a compliance test of selected audit files to establish that the audit control procedures operate. Only when the reviewer has assessed that these controls do operate effectively are the working papers reviewed to establish that the appropriate tests have been performed, and that (from the evidence on file) a valid conclusion and opinion has been reached. Once the review has been completed, the reviewer evaluates the eleven control areas that HKSA has identified.

The reviewer writes a report on the findings of the review. The draft report will be presented to the practice unit, and the practitioner has the opportunity of commenting on it and discussing with the reviewer any points raised, before the report is made final. The report contains a summary of the reviewer’s findings, suggestions and recommendations, any corrective action required, and the comments, if any, of the practice unit. If the unit disagrees with the findings, its views are taken into consideration by the Practice Review Committee. The report is then submitted, having been duly rendered anonymous and coded, to a Practice Review Committee. The anonymous reports are maintained separately from the practice unit’s other files within the Society.

The Practice Review Committee is appointed by Council. The Committee recommends to the Council policies concerning Practice Review, monitor the operation and effectiveness of the system, consider the reviewers’ reports, and determine cases that warrant follow-up review and cases that should be reported to the Council. The Practice Review Committee may:

- If a report is wholly satisfactory, agree with the reviewer’s findings and approve the report for issue to the firm.
- When recommendations are made, consult with the firm through the reviewer to agree the implementation
of the improvements and approve the report for issue.

- If it considers the deficiencies or non-adherence to standards significant, direct that a follow-up review take place no earlier than six months after the unsatisfactory review.

- If there is indication of fraud, misrepresentation or flagrant disregard of standards or where a follow-up review reveals inability or unwillingness to take corrective action previously indicated, refer the case to the Society’s Council.

Except in cases of serious professional misconduct, no punitive action is taken against any member for a first offence, as the objectives of Practice Review are educational. Eighty-five percent of the Society’s practicing members are sole practitioners, and the Society estimates that the reviews will take one day to complete.

The Institute of Chartered Accountants in Ireland (ICAI)

A member is selected at random, and a letter is sent to the member about the review. Two weeks after the letter has been sent, the Head of the Practice Review Program will telephone the member to obtain further details about the firm, and arrange a suitable date for the review (normally in about six to eight weeks time). The Head of the Practice Review Program provides the reviewer with a background note on the member and firm, identifying the type of clients the member has and the size of the firm.

The reviewer will spend the first part of the meeting with the member explaining the review process, and discussing the information submitted in the questionnaire. The number of current engagement files reviewed will depend on the reliance placed on the internal controls and the size of the practice. If the reviewer finds that reliance on internal controls is possible, at least one audit and one non-audit file per partner will be selected to test that the controls are being consistently adhered to throughout the firm. If the reviewer decides not to place reliance on quality controls, four files of limited companies and one non-audit file for each member with signing responsibility will be reviewed. If reliance is placed on the internal quality controls, the number of files selected for review may be less.

On completion of the review, the reviewer will go through all the queries with the member concerned. The reviewer will hold a wrap-up meeting to explain what was found, and ask for comments. At the conclusion of the review, the reviewer prepares a draft report including any suggestions and recommendations for improvement. The review findings are discussed with the member and the member’s comments are included in the report. The reviewer will issue the completed report which is sent to the member for further comment. The report of the reviewer and the member's comments are considered by the Institute’s Practice Review Committee. The Committee may recommend that: (a) no further action be taken; (b) the member needs to improve in certain areas and that a letter is required confirming the action that will be taken to achieve this; (c) a follow-up visit will be needed; or (d) the case should be referred to the Institute's Investigations Committee. A letter is sent to the member detailing the recommendations of the Committee.

In persuading members to accept the review program, ICAI emphasized the confidentiality of the review process. All reviews are given a confidential number, and when they are considered by the Committee, neither the member’s nor the firm’s name is divulged. If the member has a clean review, and no further action has been recommended, all documents are destroyed. Only the final
The Review Process

letter to the member is kept on file. In carrying out inspections, the Institute has found inadequate documentation to be the greatest problem. In most of the cases the reviewers have found that this is because practitioners are not writing down the information, rather than not carrying out the work.

The New Zealand Society of Accountants (NZSA)

The main purpose of Practice Review is to ensure that all chartered accountants in practice are maintaining an appropriate level of professional standards in the performance of their accounting and auditing standards. This is achieved through examining a cross-section of current engagement files in every practice. All partners are reviewed at the same time. In the first part of the visit, the reviewer discusses with the practitioner the data submitted to the Society in the information questionnaire. If, after this discussion, the reviewer determines that reliance can be placed on the internal controls, at least one audit, one compilation and one review file per partner are reviewed to test the controls. If the reviewer decides not to place any reliance on the internal controls, about four files per partner are selected for substantive testing.

After the review has been completed, the reviewer prepares a draft report which is discussed with the practitioner or partners in the practice. The report may include suggestions and recommendations to improve standards. It may also include a list of deficiencies in financial statement presentation, performance of audit engagements, performance of compilation engagements and performance of review engagements. As a result of the discussion, the reviewer may amend or delete some of the findings. The partner has the opportunity to have comments recorded.

The report is finalized by the reviewer and a copy is forwarded to the practitioner for further comment. The practitioner has ten days in which to reply. The report is then considered by the Society's Practice Review Board. The Board may recommend: (a) no further action; (b) that a declaration of compliance with standards is required within six months; (c) that there should be a follow-up review within a year; or (d) that the matter should be referred to the Investigation Committee. The Society has agreed that there will be no referrals to the Investigation Committee in the first cycle of reviews until at least one follow-up review has taken place.

The Society has taken a number of steps to ensure confidentiality. All reviewers are required to sign a declaration of confidentiality. The identity of the practitioner being reviewed is kept from the Practice Review Board. Once the review is complete, all the records relating to clients are destroyed, even though they are anonymous. The only information retained are details on the practice and the result of the review.

The Chartered Association of Certified Accountants (ACCA)

For audit regulation purposes, the monitoring visit reviews the individual's or firm's eligibility for registration and the procedures and controls within the practice to ensure that audit work is carried out properly and with integrity. In particular, the compliance officers inspect professional indemnity insurance documents, arrangements for continuity of practice (where appropriate), and records of continuing professional education. Quality control procedures governing ethics and independence, maintenance of technical skills and competence, and the approach to audit work are also examined. The compliance officers inspect a selection of completed audits to
ensure that the ‘Auditors Operational Standard’ has been followed and that the work performed and recorded supports the audit opinion. The majority of practicing members are either sole practitioners or partners in small firms. The review process has therefore to be suitable for the type of firm being reviewed, and the sophistication of a large firm is not expected of a small firm. Although ACCA is tough on seeking adherence to auditing standards, it is reasonably flexible on their implementation.

ACCA intends to visit all registered auditors once every five years, and in the interests of efficiency combined audit and investment business visits are undertaken where appropriate. In the case of firms authorized to conduct investment business, compliance officers also review the firms’s procedures for ensuring compliance with the ‘Investment Business Rules’ and examine a selection of relevant files. Under the Financial Services Act, ACCA has some 1,065 firms which are authorized. To date, ACCA has visited over 800 of these firms. Under the Companies Act ACCA will visit some 3,000 firms. The average length of a visit for a small firm will be one day. Since the relevant section of the Companies Act only came into effect on October 1, 1991, it is too early to draw any conclusions on the success of the visits, and the problems the compliance officers will find. The compliance officers expect that the biggest problem they will come across to be failure to document information and the consequent lack of data to support the audit opinion. The compliance officer will have to investigate further to ascertain whether this is a simple recording problem or a more serious audit problem. Although a monitoring visit must confirm that rules are complied with, equally important will be the advisory role of the Compliance Officer by providing, an opportunity for an independent review of a sole practitioner’s work. The reviewer will be someone with whom a practitioner can discuss worries and concerns and reduce professional isolation.

The Institute of Chartered Accountants in England and Wales (ICAEW)

Before the visit, a questionnaire is sent to the firm. This is required to be returned within twenty-one days. The number of inspectors for each review depends on the size
The Review Process

of the firm. For small firms, only one inspector is needed for the review. A senior inspector however, attends the closing meeting, and take notes. A review normally takes one and a half days for the office, plus one day for each responsible individual (an individual authorized by the firm to sign audit reports). The Inspector reviews about three files for each responsible individual, and looks at the capability, independence and integrity of the firm.

There is a meeting at the end of the review. The practicing firm is required to send to JMU a report detailing the findings of the closing meeting, and the action that has been agreed. After the review, the senior inspector sends the findings to the regional controller who reviews them for consistency among the reviews in the region. The findings are then sent to JMU Headquarters where the review is scrutinized by a technical reviewer whose role is to ensure technical competence and consistency. The Head of JMU undertakes one final review before the report is considered by the Audit Registration Committee. JMU reports only ethical breaches to ICAEW.

The Audit Registration Committee (ARC) is made up of members of the Institute and four independent non-accountant members. It considers all applications for registration. It is the responsibility of ARC, not JMU, to make a decision on a firm’s registration. A key area the Committee looks at is the firm’s competence to undertake audit work. Where the Committee believes that it needs more information before registering or refusing to register a firm, it may ask JMU to carry out a pre-registration visit. In making a decision, ARC considers the JMU report, the closing meeting notes, and any comments the firm may wish to make on the JMU report and its recommendations. Where a firm is required to give undertakings on improvements, ARC may ask JMU to undertake a follow-up visit to confirm that the improvements have been made, or may seek written confirmation from the firm of the steps taken to achieve the undertakings. If a firm does not agree with the decision of ARC, it may apply to the Review Committee for a rehearing.

The American Institute of Certified Public Accountants (AICPA)

In its own interest, the profession took steps to maintain and improve the quality of accounting and auditing services provided by AICPA members. As experience had shown that complaint-based systems were not effective, the Council of AICPA recommended that the profession adopt a practice monitoring requirement. The Council maintained that it was better for a practice to find out that it had problems in a review, than in court. AICPA has three different review programs:

- The Securities Exchange Commission (SEC) Practice Section peer review program (SECP) for firms which audit one or more SEC clients.

- The Private Companies Practice Section (PCPS).

- The AICPA Quality Review Program (QRP).

Quality Review

During the last quarter of each year, the managing partner or owner of a CPA firm is contacted by the participating state CPA society or AICPA. Each firm is asked to complete a request for scheduling, and state whether it performs accounting or auditing engagements, and the areas in which it practices. Before the review, it is important that the firm is ready and AICPA provides a checklist of the steps the firm should take before the review team arrives. Before carrying out a review the firm will complete a
questionnaire(s) outlining its quality control policies and procedures. The review team captain and the firm agree on the review period to be covered. The review period should cover one year and should generally be within three to five months of the date of the review. For firms with more than one office, the reviewing team will visit a cross-section of the firm's accounting and auditing practice.

In selecting files to review, the team reviews all the services provided including audits, reviews, and compilations of historical and prospective financial information. To assist in making the selection the team captain obtains a listing of the firm's clients, the type of services provided, the type of industries served by those clients, and the size of the engagements. Depending on the type of review, SECPS, PCPS or QRP, AICPA has laid down guidelines on the type of engagements that must be reviewed. The team captain makes a preliminary selection before the review so that the reviewed firm can gather the files before the review; additional engagements are selected after the review team arrives.

AICPA has identified nine areas that should be covered by a quality control system: independence; consultation; assigning personnel to engagements; supervision; hiring; professional development; advancement; acceptance and continuance of clients; and inspection. Although a reviewer may not actually test all nine elements of quality control, a firm is still required to address each of these issues. In reviewing a small firm, the reviewer will not expect to see the same detailed policies and procedures that will be found in a large firm. The objectives of reviewing engagements are to obtain evidence of the following:

- Whether the reviewed firm's quality control system for its accounting and auditing practice met the objectives of quality control standards established by AICPA to the extent that such objectives are applicable to the reviewed firm's practice.

- Whether the reviewed firm complied with its quality control policies and procedures during the year under review to the extent necessary to provide the firm with reasonable assurance of conforming with professional standards.

- Whether the reviewed firm complied with the membership requirements of PCPS and/or SECPS (Division for CPA Firm members only).

For each engagement reviewed, the review team must decide from its review of the engagement working papers and representations from the reviewed firm’s personnel whether anything caused it to believe that the:

- Financial statements were not presented in all material respects in accordance with generally accepted accounting principles.

- Firm did not have a reasonable basis under the applicable professional standards for the report issued.

- Documentation on the engagement did not support the report issued.

- Firm did not comply with its quality control policies and procedures in all material respects (AICPA 1991).

The reviewer will look at documentation regarding the resolution of independence questions and will expect to see that annual independence representations are obtained from the professionals in the firm. The reviewer will check the forms and manuals used in carrying out engagements to see that they are appropriate and current. The reviewer will discuss some of the more difficult engagements, find out whether outside
sources were consulted and read memos on some of these consultations. The reviewer will check the library and CPE records. With respect to the other elements of quality control; hiring, assigning personnel, advancement, acceptance, and continuance of clients, the reviewer will read the responses in the questionnaire. In the absence of significant or pervasive deficiencies in the engagements reviewed, a smaller firm’s quality control system however informal is apparently adequate and working because the objective of quality control standards - conformity with professional standards is being achieved.

At the end of the review, an exit conference is held where the team captain discusses the findings of the team with the firm. Within thirty days of the exit conference, the team is required to prepare a written report and letter of comments. A review team may issue an unqualified or qualified report. The firm provides a written report and letter of comments in response to the review team’s findings. The quality review program is intended to be both positive and remedial, and a likely action that reviewers may recommend is that members are required to take CPE courses. After the report, a letter of comments and letter of response are submitted by the reviewed firm and, after the applicable working papers are submitted by the team captain, a technical review is undertaken. The technical reviewer checks the work of the review team to see if all problems have been clearly identified. The peer or quality review documents are then submitted to the applicable report acceptance body (RAB) which considers whether the review has been carried out in accordance with the applicable standards. It also considers whether any additional corrective action should be carried out, and monitors all corrective action carried out by the firm. If firms refuse to cooperate, or in situations in which corrective action is not adequate or where the practitioner’s work is fraudulent, disciplinary action will be taken.

To ensure consistency, AICPA staff undertake a technical examination of the reviewers findings before the Peer or Quality Review Committee reviews the case. The Peer or Quality Review Division also attends a random selection of one to two percent of the reviews and runs a national conference for Peer and Quality Review Chairmen of CPA State Societies. Although peer and quality reviews have pinpointed important areas of improvement for most firms, overall quality in the vast majority of firms provided reasonable assurance that their accounting and auditing engagements conform to professional standards. The lessons peer and quality reviews have provided have helped firms improve the quality of their accounting and auditing services.

The Office of the Inspector General

The Office of the Inspector General has produced detailed review guides for the Uniform Quality Control Review and the Uniform Desk Review. Reviews are undertaken of audits of Federal activities performed by independent public accountants or non-Federal government auditors. Briefly, the reviewer will look at a number of areas including: (a) whether the audit was carried out in accordance with the Single Audit Act of 1984 and/or OMB Circular A-128, generally accepted auditing standards and Government Auditing Standards; (b) the auditor’s qualifications, independence and level of professional care; and (c) the standard of the planning, supervision, working papers, and internal control structures (OMB 1987).

The reviewer can make one of three recommendations, that the audit is: (a) acceptable, and requires no or only minor corrections; (b) substandard and requires the correction of one or more major audit deficiencies; or (c) significantly inadequate and should be considered for referral. The reviewer may recommend that follow-up audit
work should be carried out. In addition, the
desk reviewer may recommend that a quality
control review should be scheduled. Over 85
percent of OIG reports are issued without
change or with minor changes. Only a very
small percentage of the reviews (less than 3
percent) revealed significant inadequacies.
(Significant inadequacies would include audits
undertaken by unqualified personnel,
insufficient working paper documentation or
work performed departing from generally
accepted government auditing standards.) OIG
has found that state or local auditors perform
considerably better than independent public
accountants as they are more familiar with the
audit requirements.
Annex E: Education and Reaction of Members

The Australian Society of Certified Practising Accountants (ASCPA)

The Society will not introduce its Quality Assurance Program until 1993. It is too early to say what will be the reaction of members. The Society has kept its members informed about the program through articles in the ASCPA Journal, production of an explanatory booklet, professional development seminars, and the introduction of a module on quality assurance in the public practice program.

The Institute of Chartered Accountants of Ontario (ICAO)

Initially there was some hostility from members, especially from small practitioners who felt threatened by the program. The Institute emphasized the educational benefits of the program and this helped alleviate the initial concerns. The Institute had previously established a practice advisory service, which provided expert advice on a wide range of matters on a no-cost, confidential basis. This established trust between members and the Institute and eased the introduction of practice inspection. There was some criticism that practice inspection was unfair in that members whose weaknesses are brought to light as a result of a complaint are subject to the full disciplinary procedures, whereas weaknesses discovered through practice inspection generally only result in a re-inspection.

Inspectors can assist members to maintain professional standards, and may suggest that members seek further assistance from the Institute’s (free) Practice Advisory Service. The inspections have identified weaknesses at an early stage which members have been able to rectify before they have become serious problems. The Institute finds that because of the assistance offered through its practice inspection program, it can reduce the volume of disciplinary cases against members. By having all members in practice conform to a single standard, ICAO hopes to increase public confidence in the quality of its members’ services, minimize government intervention in the regulatory process and enhance public relations.

After the inspection details have been confirmed, a survey is sent to the inspectee. This survey, which can be completed anonymously, is designed to monitor the performance and progress of the inspection program. The results of the program have helped the Institute’s Professional Development Committee in designing or strengthening courses for members. ICAO has reported to the Auditing and Accounting Standards Committee of CICA areas where members are experiencing difficulties in understanding and complying with standards. Today the program is well received by members, who find the reviews beneficial.

The Hong Kong Society of Accountants (HKSA)

HKSA has held workshops to educate members. The workshops which started in June 1991 last for half a day, and have approximately thirty participants. The format is a mixture of lecture presentation of the scheme and discussion group case study work dealing with practical problems of document-
Quality Review Schemes for Auditors in SSA

ing and evaluating a firm's systems. The Society has published a workshop manual, and will be running on-going training programs for new practitioners. Members expressed concern over whether the introduction of the Practice Review Program could be interpreted by the public and government as meaning that professional standards are lower in Hong Kong than in other countries. The Society pointed out existing schemes, and the interest of IFAC in this matter. By adopting Practice Review, Hong Kong can show that it is at the forefront of the profession. The Council advised its members that self-regulation was preferable to government regulation.

One area of concern to members of HKSA was the possible breach of the duty of confidentiality that members owe to their clients by revealing audit files to reviewers. Members also raised the potential problem that may arise should a reviewer, having gained confidential information, leave the Society and take this information to be used to unfair advantage. The security of the information within the Society and the keeping the identity of the firm anonymous during deliberations of the Practice Review Committee was also questioned.

The Council of the Society is aware of the need for confidentiality. All the individuals involved in Practice Review are members of HKSA and are bound by the Statements of Professional Ethics with regard to confidentiality. There is legal precedent in Hong Kong to show that in complying with professional rules, a professional will not be breaching a confidence if he or she discloses information respecting a client's affairs to a committee or agent of the concerned professional body. To counter the problem of a reviewer leaving the Society and using the information, the Society proposed an amendment to its enabling legislation to make it an offence for the reviewer to reveal confidential information except when required by law. The Society reassured members that only completed audit files would be reviewed.

On the matter of internal confidentiality, the Society agreed to code all files relating to a practice unit. The identity will only be revealed to the Practice Review Committee should the practice unit dispute the recommendations of the Committee or should follow-up action be required when the practice unit does not take steps to rectify deficiencies noted by the Committee. All detailed files will be destroyed after completion of the review process. It is too early to say what the benefits will be. HKSA hopes that they will improve the image of members of the Society.

The Institute of Chartered Accountants in Ireland (ICAI)

Brochures explaining Practice Review were sent to all members in practice. In addition, a number of members' meetings were held to launch the scheme. In persuading members to accept the review program ICAI emphasized the confidentiality of the review process. To enable ICAI to monitor reaction to the reviews, members are given a brief questionnaire to complete. The results of these questionnaires have shown that most members see the reviews as a positive exercise from which they have benefitted. ICAI will start its second cycle of practice reviews in 1992, and it expects to be looking for higher standards from its members.

The New Zealand Society of Accountants (NZSA)

The Society introduced Practice Review in 1990. The Society spent almost two years considering the introduction of its program. Three information booklets were sent to members and discussed at length through local group meetings. A small number of practitioners resisted the reviews by raising concerns over client confidentiality, and the right of the Society to have access to client records. Once the Practice Unit pointed out that the Rules and the Act contain the
authority needed, and that each reviewer is required to sign a declaration of confidentiality, the concerns vanished.

For some members, the Practice Review program has been traumatic. This is the first time they have had their work examined. Once members have understood that the Reviewers’ role is educational, the majority have welcomed the opportunity to discuss professional matters with an independent third party. A feature of the Society’s Practice Review program is that practitioners are asked to complete an evaluation of the reviewer and the review process. Although less than 18 percent complete these, the results show that most practitioners reviewed believe they have benefitted from the process. In addition, those who were skeptical of the educational value of the review beforehand, felt afterwards that they had learnt something of value from it.

Although not the purpose of the review, the Society has been able to use the reviews to help improve practice management. Reviewers common across a variety of different management and file systems and are able to pass on best practice. In addition, the Society publishes a number of standard checklists, program and worksheets which it can distribute to auditing firms needing assistance. Many members have taken advantage of the information available.

The Chartered Association of Certified Accountants (ACCA)

ACCA has issued a number of brochures to its members explaining the introduction of the review program; what it will contain, and the reason why it is being introduced. ACCA has also held meetings with its practicing members to explain the review program. The United Kingdom Department of Trade and Industry is hoping that the review program will raise auditing standards. In 1992, ACCA issued its first annual report to the President of the Board of Trade for the year ending September 30, 1992. The report states: "The experience of the first 300 monitoring visits suggests that the advent of audit regulation has already led to significant improvement in the quality of audit work carried out by firms registered by the Association. The standards observed during the first year, particularly in the area of recording of audit work, have varied from very poor to excellent. However, probably because of the certainty of monitoring, most firms visited have been found to be in the course of a major overhaul of their audit procedures, documentation and controls. Wherever possible, the opportunity has been taken to provide constructive advice and to help with the process of improvement already under way. The Association expects that, through a combination of guidance and a progressive tightening of enforcement procedures, the existing regulatory arrangements will achieve a major and continuing improvement in standards" (ACCA 1992).

The Institute of Chartered Accountants in England and Wales (ICAEW)

ICAEW, through its ‘Audit News’ and ‘Audit Regulations and Guidance’ booklets keeps its practitioners up-to-date with the requirements of the Companies Act and the review process. The Institute has also published articles in its journal to further explain the process. JMU has participated in presentations, discussions, articles, and in consulting and advising firms, local societies and training groups. It also handles daily telephone calls from firms seeking help or guidance. The initial reaction was mixed. Some practitioners felt that the reviews had been introduced as a result of a few high profile company collapses and associated alleged audit failures. Others welcomed the reviews as a means of weeding out the weaker auditors. An initial complaint, and one that still remains, was the cost of the reviews.
Some firms found that they needed to introduce new office procedures or revise their procedures to meet the review requirements. These changes add to the time taken to complete an audit, and must be recouped from the client or borne by the firm.

Overall, the contact with JMU has led to a greater awareness of the requirements of the auditing standards and guidelines, and an acceptance that compliance is essential if a firm wishes to retain its registration. Practitioners are taking seriously the need to comply with audit regulations, and where improvements are required, they are implementing the necessary changes.

The American Institute of Certified Public Accountants (AICPA)

When AICPA first proposed a review system in the mid 1960s, there was much opposition and the idea was dropped. In 1987, the AICPA Council approved a membership ballot on mandatory SECPS membership for firms performing audits of SEC registrants, but the proposal received insufficient votes for its introduction and was achieved only in 1990. Members contended that they did quality work, and that they did not need an outside agency to verify it. The introduction of the quality review scheme was imposing another layer of bureaucracy, especially for small firms. Many members, especially sole practitioners, fear the reviews. The cost of the reviews, between $3,000 and $15,000 for a small firm, is also a principal complaint. AICPA took this observation seriously, and explained to members that it was not the goal of the Institute to require small firms to introduce superfluous procedures. Of the twelve practitioners on the AICPA Quality Review Committee, three are sole practitioners. In reviewing the work of small firms, the focus is on the quality of engagements and unnecessary paperwork or documentation is not required. AICPA regularly publishes articles in its journal on peer and quality reviews and talks are given to CPA societies to try to allay members fears.

AICPA wishes all members to understand what they are being measured against and why before they have a review. AICPA has a number of programs that can assist members to prepare for a review:

- A self-study program on preparing for review.
- A confidential risk-free consulting review program developed by PCPS (a reviewer visits the firm, usually for one day and undertakes a review of procedures and selected engagements).
- A guide for performing inspections that helps firms carry out their own review of accounting and auditing practice to identify matters that need to be corrected.

Consulting Review

A consulting review is a confidential, high-spot one day review of quality control procedures and selected engagements that takes place before the official review. The consulting review is confidential and helpful in revealing before the review problems a firm might encounter. At the end of the review, the reviewer gives the firm an oral report and makes suggestions for improvement. AICPA offers various training courses on review. The review process has been beneficial for members. It has helped them to improve their firms' image and staff morale, quality control procedures and systems, planning and work program scheduling. Clients have more confidence in a firm's professional ability, knowing that it is adhering to professional
standards. Many members see review as the cornerstone of the profession.

**The Office of the Inspector General**

The Office of the Inspector General has not experienced problems with the introduction of the Uniform Quality Control Review. The state and local auditors and the independent practicing accountants know that their reports will be reviewed by the Office of the OIG when they prepare them. The OIG has found that most auditors want to do a good job, and are willing to correct any deficiencies found.
**Annex F: Tanzania Pilot Quality Review**  
**Guide for Auditors: Your Questions Answered**

---

**What is a Quality Review?**

1. A quality review is an independent review of a firm's auditing practices. The word 'firm' has been used throughout to indicate all types of auditing entity. A typical review would include reviewers visiting a firm, obtaining an understanding of how its quality control systems work, and testing some relevant records and files. On completion of the review a report would be written including, if applicable, a letter of comments indicating where the firm needs improvement. It is not the intention of the review to challenge the auditor’s judgement over the audit conclusions reached: it is a review of the work performed and whether the work recorded supports the audit opinion. A quality review is not a re-audit of completed audits. It is a check that the systems in place are adequate. A re-audit can only provide assurance that a particular audit has been carried out satisfactorily. It does not provide assurance that future audits would be acceptable.

2. The concept of review of auditors first arose in the 1960s and 1970s in the United States when there was widespread scrutiny of the practicing accounting profession. In 1969 the American Institute of Certified Public Accountants (AICPA) recommended that a scheme be set up to provide accounting firms with an opportunity to have objective cross-reviews of their auditing work. Since then Canada, Hong Kong, Ireland, New Zealand and more recently Australia, France and the United Kingdom have decided to introduce similar schemes. The main purpose of a review scheme is to test whether auditors are doing their jobs properly and are observing high professional standards. Independent reviews of audit and accounting practices have been shown to be effective in helping firms identify and correct substandard practices.

3. The International Federation of Accountants (IFAC) encourages member bodies to introduce reviews. In December 1990, its Council issued an Exposure Draft of a Proposed Statement of Policy of the Council; ‘Assuring the Quality of Audit and Related Services’. The Draft asked that over a period of time IFAC member bodies: (a) adopt or develop quality control standards and guidance; (b) develop quality assurance programs; and (c) require firms to make improvements to quality control policies and procedures when necessary. The Draft was issued to all member bodies of IFAC for consideration, and the response was favorable. The Draft was considered by the Council of IFAC in May 1992, and a final Statement of Policy was issued by the Council.

**What is the Purpose of a Quality Review?**

4. A quality review ascertains whether an auditor’s system of quality control provides reasonable assurance of conforming with professional standards. A quality review should result in increased user confidence in the reliability of financial statements, as the user can be assured that the auditors have adhered to professional standards. A quality review can also identify weaknesses in the audit process and so provide technical assistance to aid professional development. One advantage of the schemes in the countries that have already adopted them has been the
educational benefit. It is a learning experience for the practicing accountant. The reviews have drawn attention to problems which the auditor has been able to address.

5. The National Board of Accountants and Auditors (NBAA) is a member of IFAC. The Board of NBAA is considering the introduction of a review scheme for auditors. Under the Bank financed Financial and Legal Management Upgrading Project (FILMUP) funding will be provided for technical assistance to help NBAA introduce its review scheme. Your participation in this pilot exercise will assist NBAA in deciding what form its review exercise should take. It will also prepare you for a NBAA review.

What Does a Quality Review Involve?

6. A meeting will be held between the reviewers and the senior partner (the word 'partner' has been used throughout to indicate 'practitioner', 'partner' or 'director') to explain the objectives of review, the details of the review process and to discuss the information submitted in the questionnaire (see paragraph 12). The reviewers will assess first the level of quality controls in place. The reviewers will not expect to see the same level of quality controls in a small firm as in a large firm. For the purpose of the pilot review the reviewers will just look at audit engagements, they will not review non audit engagements. The number of files to be reviewed may be reduced if adequate quality controls are in place.

The reviewers will look at:

- Compliance with auditing standards.
- Audit planning, including assignment of personnel.
- Accounting and auditing hours and client lists to ensure that there is not over programming and that the work is fairly distributed between the partners.
- The client list to see whether there is over-reliance on one client, or whether there are client debts.
- CPE, audit manuals and other documentation.
- Consultation with partners or other experts.
- Hiring and advancement.
- Acceptance and continuance.

The reviewers will be looking to see whether the audit has been carried out in accordance with auditing standards and guidelines and that there is adequate documentation to support the opinion of the auditor. It is not the intention of the reviews to challenge the opinion of the auditor. The review will place in early February and will last no more than two days per firm. You are welcome to observe the work of the reviewers. If you are unclear on any part of the process the reviewers will be pleased to answer your questions.

Who Will Undertake the Review?

8. The Task Manager for the reviews will be Mrs. Sonia Johnson. In addition, there will be four reviewers, Mr. Colin Lyle, FCA, Senior Accounting and Auditing Specialist, Mrs. Judy Makanda, ACA, Accounting, and
Auditing Specialist, Mrs. Mercy Sabai, CPA(T) of the Bank and a consultant with experience of undertaking quality reviews. The National Board of Accountants and Auditors (NBAA) will have a representative observing the review process.

What Information Will I Have to Provide?

9. So that the reviewers have a profile of your firm before they visit Tanzania you should complete the attached questionnaire and return it to NBAA by December 15, 1992. This will provide the Bank with basic information about the firm and its internal controls and audit procedures. You are not required to provide lengthy replies. A few comments however, will be very helpful and will reduce the amount of time the reviewer will have to spend with you. At the same time NBAA will ask you to provide a list of clients, with an indication of the responsible partner. From this list three to four files will be selected. You will be informed of two of these in advance of the review, and one to two when the review takes place. In addition to the above there is attached a list of material which you should make available during the review.

How Will the Confidentiality of Client Files be Ensured?

10. All reviewers are members of professional accounting bodies which have rules of professional conduct with regard to confidentiality. You can assume that the reviewers will strictly abide by these rules and will not reveal information to the wrong sources. As it is the intention of this pilot to test the process, not to test the auditor, all detailed working files will be destroyed after completion of the review process. In addition, only completed audit files will be reviewed, so it is less likely that sensitive information will be revealed to the reviewers.

What Will Happen After I Have Been Reviewed?

11. After the review there will be a meeting to discuss the findings, and any suggestions made to improve working methods. If there are any suggestions for improvements these will be agreed with you. The reviewers will help you draw up a timed action plan for improvement. This will be your opportunity to discuss with the reviewers your reaction to the review process and to make any suggestions as to how it can be improved. NBAA has agreed that no disciplinary action will be taken against any member, as a result of any deficiencies found during the pilot reviews. Members will be given a year to improve before being reassessed by NBAA.

12. The reviewers will prepare a written report after the review. The report will contain a summary of the reviewers' findings and suggestions for improvements, and your comments, if any. This will be sent to you for your information and comments. The final report, which will include your responses, will be sent to you and to NBAA which will follow up on any suggestions made by the reviewers.

13. As mentioned earlier the purpose of the pilot is to find out the reaction to the review process, and whether it is appropriate. The reviews are intended to be educational, to help you identify deficiencies which you can overcome. As such all working papers will be destroyed. The individual auditor reviews will remain confidential, and they will not be circulated within the Bank.
Quality Review Schemes for Auditors in SSA

14. After the pilot reviews have been carried out in Tanzania and Senegal the findings will be published. What will be described in the final report are the generic problems that were discovered, the reaction of auditors, any changes that should be made to the review process, and a recommendation as to whether auditor reviews should be implemented throughout Sub-Saharan Africa. No auditor will be mentioned without express permission.
Annex G: Pilot Quality Review
Questionnaire

1. Name of Firm .............................................

2. Address of Firm .............................................

   Telephone no. .............................................

3. Name of partner who will coordinate the review .................................

4. Please list on a separate sheet all professional staff employed in your office, giving their job titles and qualifications.

5. Please give your best estimate as to your firm's chargeable hours in the areas listed below for the last financial year.

   Audit ..................................................

   Review ..................................................

   Compilation ...........................................

   Other ..................................................

   Total ..................................................

   .
A. Independence

6. Do all professional staff adhere to the independence rules of NBAA? YES/NO

7. How are professional staff informed about the independence rules? For example, through an audit manual, training, meetings etc.

8. How are the independence rules monitored by the firm. Does the firm obtain written statements from all professional staff on an annual basis?

9. Who is responsible for resolving independence issues and are staff aware who this person is?

10. What outside sources does your firm consult with in resolving independence issues? For example, NBAA or other firms.
B. Acceptance and Continuance of Clients

11. Has the firm established any procedures for the evaluation of prospective/existing clients and for their approval as clients? YES/NO If YES what are they?

......................................................
......................................................
......................................................
......................................................
......................................................
......................................................
......................................................
......................................................

C. Assigning Staff

12. Who is responsible for assigning staff?

......................................................
......................................................
......................................................
......................................................
......................................................
......................................................

13. Describe the method the firm uses to assign staff to engagements, including how far in advance assignments are made and what type of information is given to the member of staff responsible for the assignment.

......................................................
......................................................
......................................................
......................................................
......................................................
......................................................
......................................................

14. Does the firm maintain personnel files? YES/NO If YES what do they contain?

......................................................
......................................................
D. Supervision

15. Does the firm follow documented procedures for planning audit and accounting engagements YES/NO? If YES please describe briefly and indicate where can these procedures be found. Please make these available during the review.

.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................

16. If the answer to the above is no briefly describe the procedures the firm follows in planning an audit and accounting engagement.

.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................
.................................................................

17. Does the firm use any written checklists or questionnaires? YES/NO If YES please attach a copy
18. In addition to, or in place of, the use of checklists or questionnaires, what other procedures, if any, are established to secure proper documentation of auditing procedures and a support of accounting matters?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

19. Does the firm have a system whereby audit files are reviewed by a second person? YES/NO If YES please describe.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

20. Has the firm developed a system of supervision of its internal quality control systems? YES/NO If YES what does it entail?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
E. Administration

21. What procedures has the firm established for file retention?

F. Hiring and Advancement

22. Describe how the firm identifies professional personnel needs and how recruitment is undertaken.

23. Does the firm regularly evaluate staff? YES/NO If YES what does this entail?
24. How do professional staff keep up-to-date with professional developments?

25. How are professional staff made aware of changes in accounting and auditing standards? For example through in-house meetings, distribution of standards etc.

26. Is there a written record of professional development undertaken? YES/NO If YES please make it available during the review
Annex H: Quality Review Scheme Checklist

The review schemes that have been introduced have taken a substantial amount of time to implement. All the accounting bodies that have introduced such schemes spent considerable time discussing the idea, drawing up the scheme, and educating their members about the purpose of the scheme. Before a national accounting body in SSA introduces a quality review scheme, there are a number of steps that need to be considered.

Objective

In considering whether to introduce a quality review scheme an accounting body has to decide what the objective of the review will be. Table 2.1 in the main body of the text and Annex B summarize the different review schemes that have been introduced and their purpose. The body also has to decide whether the emphasis of the review scheme will be educational or punitive. The latter is important because it will affect the follow-up action the body will have to provide.

Standards

The minimum professional accounting and auditing standards that must be adhered to by auditors should be established. In carrying out a quality review, the reviewer must have a set of accounting and auditing standards to use as a guide in determining whether a practitioner’s audit files and financial statements are in compliance. Not all countries in SSA have their own national standards. Where this is the case, the national accounting body may wish to adopt international standards or prepare its own accounting and auditing standards before a quality review scheme is introduced.

Checklist

A checklist should be developed which should list the minimum standards that must be followed by an auditor with respect to professional conduct, the execution and documentation of an audit, the issue of the auditor’s report and the financial statement disclosure. This checklist should be used by the reviewer to determine whether an auditor’s audit files, report and financial statements comply with the standards set by the body.

Legal Implications

The accounting body should ascertain whether there are any legal obstacles to reviewing client files, without prior client permission.

Reviewers

The accounting body must establish who will perform the reviews. In selecting a reviewer, the body should look for qualities such as independence and integrity, professional competence, attention to detail, and excellent interpersonal skills. In addition, all bodies that have introduced schemes have chosen to appoint as reviewers members with considerable audit experience. The body may wish to draw up a checklist against which potential reviewers can be measured. In all countries the body should take steps to ensure that the reviewer will be independent, and will be able to keep the information they receive.
confidential. This may involve the body appointing its own full-time reviewer. To ensure that the reviews are carried out to the body's specifications and are applied consistently, the national body may wish to give the reviewers training, and undertake a desk review of the reviewers' work.

Follow-up Action

The body must have a plan to handle the outcome of the reviews. The body must decide what action will be taken against auditors who do not meet the minimum standards. This could be reinspection within a certain time period or referral to the body's professional conduct committee. There should be sufficient incentive for members to take the review process seriously and ensure that they are adhering to accounting and auditing standards. If technical advice is needed to help members improve, the body will have to decide whether it will provide such assistance, or whether it will use the services of other members or another agency. The reviews may identify deficiencies that can be rectified by training. The accounting body should be prepared to help its members gain this training, either by offering it itself, or by persuading other bodies to offer courses. If the body cannot do this it should seek assistance from government or external donors.

Government Auditors

In many countries in SSA, government auditors are not required to adhere to the same standards as private sector auditors. It must be decided whether government auditors should participate in the scheme as a way to improve the quality of the work of their offices. If this is not feasible or desirable, government auditors could be reviewed against INTOSAI standards, national legislation, and government regulations.

Membership Support

If a scheme is to be successfully introduced, there must be support from the members. Members should be kept informed of all steps in the introduction of a review scheme, and should be given the opportunity to voice their concerns and fears. Members must know the criteria against which they will be measured. The body may like to consider having a membership vote on whether a review scheme should be introduced.

Finance

The body must ascertain how much the review process will cost and decide how it will be financed. The costs could be incorporated in the annual fees of all members or the cost of each review could be directly charged to the member being reviewed. The body may wish to consider the implications of the auditor passing onto the client the cost of the quality reviews.
References


Quality Review Schemes for Auditors in SSA


Distributors of World Bank Publications

ARGENTINA
Carletti Hamil SRL
Calle Gener Joseph
Florida 168, 4th Floor-Ofc. 433/438
1033 Buenos Aires

AUSTRALIA, FAYA NEW GUINEA, FIJI, SAMOA, BELARUS, VANUATU AND WESTERN SAMOA
D.A. Information Services
644 Whitehorse Road
Mitcham 3132
Victoria

AUSTRALIA
Cordif and Co.
Church St
A-1031 Wien

BANGLADESH
Micro Industrial Development
A Shraer Society (D-IDAS)
House S, Road 16
Dhaka 1205
Dhaka 1219

Branch offices:
Pase View, 1st Floor
100 Agradah Commercial Area
Chittagong 4130

BELGIUM
Jean De Laromery
Av. du Rol 301
1060 Brussels

CANADA
Le Diffusor
151A Boul de Montagne
Boucherville (Q.S)
J4B 5N5

Ranoul Publishing Co.
1294 Avenne Road
Quebec, Canada
K1B 3W8

CHILE
Instituto C.D.A.
Av. Santa Maria 6660
Edificio Paraguay, C. 201
Santiago

CHINA
China Financial & Economic Publishing House
8, Da Pi Si Dong Jie
Beijing

COLOMBIA
Infolatam, Ltda.
Apartado Aereo 34270
Bogota D.C.

COTE D’IVOIRE
Centre d’Edition en de Diffusion Africaine (CEDA)
04 BP, 581
Abidjan 04 Plateau

CYPRUS
Center of Applied Research
Cyprus College
6, Dipaoulo Street, Nicosia
P.O. Box 294
Nicosia

DENMARK
Svensafabrikken
Rosenborg AB 11
DK-4380 Frederiksborg C

DOMINICAN REPUBLIC
Editus Tolstoi, C, por A.
Restauracion a Isla las Cadixas 309
Apartamento de Correos 2150 Z-1
Santo Domingo

EGYPT, ARAB REPUBLIC OF
Al Aswan
Al Colin Street
Cairo

The Bid in East Observer
11, Saint Street
Caire

FINLAND
Alakirjan Kirjakauppa
P.O. Box 128
SF-00101 Helsinki 10

FRANCE
World Bank Publicatons
66, avenue d’Ivrea
75116 Paris

GERMANY
UN-Verlag
Poppenburger Allee 25
D-5300 Bonn 1

HONG KONG
McGuire, MacAoid
Ave 200 Ltd.
46-48 Wing Chun Street
Wansung Center
2nd Floor
Central Hong Kong

HUNGARY
Foundation of Market Economy
Domborzat 13-19
H-1117 Budapest

INDIA
Allied Publishers Private Ltd.
731 New Broak
Mumbai - 400 032

British office:
15 J.L. Harlequin Marg
Ballard Estate
Bombay - 400 028

17/4 And All Road
New Delhi - 110 002

17 Chintanpuri Avenue
Calcutta - 700 002

Jaypee Hotel Building
5th Main Road, Chandigarh
Bangalore - 560 009

3-5-129 Kachiguda
Cross Road
Hyderabad - 500 027

Prafulla Plaza, 2nd Floor
Near Thakore Bung, Kherwaram
Abrol Ahmedabad - 380 009

Patel House
16 Ashok Marg
Lucknow - 226 001

Central Bank Road
25 Rajiv Nagar
New Delhi - 110 002

INDONESIA
Pel. Indira Limited
Jakarta 10213

IRELAND
Central Bank of Ireland
Dublin 2

ISRAEL
Yadcard Literature Ltd.
P.O. Box 51055
Tel Aviv 61103

ITALY
Liush Commerciali Rassegna SPA
Via Dini Di Cattaneo, 1/1
Camil Piibblica 52
SRL Florio

JAPAN
Kawamura Book Corporation
Kawamura House, Mikiou-sei 113
Tokyo

KENYA
Africa Book Services (SLA) Ltd.
Queen House, Mombasa Street
P.O. Box 42544
Nairobi

KOREA, REPUBLIC OF
Pan Korea Book Corporation
P.O. Box 184
Kwagangum Seoul

Korean Stock Book Center
P.O. Box 34
Yang
Seoul

MALAYSIA
University of Mahatma Cooperatives
Bhmburth 13-19
H-1117 Budapest

MEXICO
INFOTEC
Apartado Postal 22-340
14365 Tijuana, Mexico D.F.

NETHERLANDS
De Lijnstraat In-De-Publication
P.O. Box 202
7490 AR Haarlem

NEW ZEALAND
ZBCO N.I. Ltd.
Private Mail Bag 9954
Auckland

NIGERIA
University Press Limited
Three Crown Building Ikoyi
Private Mail Bag 5805
Ibadun

NOOR
Narayana Information Center
Bank Department
P.O. Box 6222 Ennore
N-6602 Chennai 6

PAKISTAN
Musa Book Agency
65, Shahkar-e-Qadai-e-Aman
P.O. Box 729
Lahore 54000

PERU
Editorial Desvarez SA
Apartado 3042
Lima 1

PHILIPPINES
International Bank Center
Salia, Bldg. 3rd Floor
Commonwealth Tower 1
Ayala Avenue, M.H. city
Cebu City, Bohol

Michael, Mehdi Musa

POLLAND
International Publishing Service
Tel 633-3027

PORTUGAL
Livraria Portugale
Rui Do Coro 79-76
1280 Lisboa

SAUDI ARABIA, QATAR
Jad Al Shura
P.O. Box 9115
Riyadh 11071

SINGAPORE, TAIWAN
MANAHLvironments
Great Asia Public Pte Ltd.
Golden Wheel Building
31, Keeling Poading, 906-03
Singapore 1215

SOUTH AFRICA, BOTSWANA
For single titles
University of Pretoria Press
Southern Africa
P.O. Box 176
Cape Town 8000

For subscriptions only:
International Subscription Service
P.O. Box 2185
Cape Town 8000

SPAIN
Manu-Presa Libros, S.A.
Canale 27
2800 Madrid

LIBRERI INTERNATIONAL AECOS
Canal de Cast 191
08006 Barcelona

SRI LANKA AND THE MALDIVES
Lake House Bookshop
P.O. Box 21
110. St.Clement’s Rd.
Gardner Maina
Colombo 2

SWEDEN
For single titles
Universitetsbokhanden
Ringergatan 13, Box 1263
S-102 37 Stockholm

For subscriptions only:
Wenner-Gren-Williams AB
P.O. Box 1205
S-171 25 Stockholm

SWITZERLAND
For single titles
Libriester Paynet
Casino post 8.0.01
CH 1001 Lausanne

For subscriptions only:
Libriester Paynet
Sernis des Allemvisois
Casino post 8.0.01
CH 1001 Lausanne

THAILAND
Central Department Store
2344 Silom Road
Bangkok

THIRD & TURQUOIS, ANTIGUA
BANADA, BARBADOS
DOMINICA, CARIBBEAN, GUYANA,
JAMAICA, MONTserrat, ST.
Kitts & Nevis, ST. LUCIA,
ST. VINCENT & GRENADINES,
St. Kitts, Nevis et St. Lucie

UNIFIED KINGDOM
Institute Ltd.
P.O. Box 3
Aher, Hampstead CN2 JFC
England

UNITED STATES OF AMERICA
Lexicon Communications
420 Madison Ave.
New York 10017

VENICE, ITALY
EDIFICE VENICE
Piazza San Marco 6144
Italy
RECENT WORLD BANK TECHNICAL PAPERS (continued)

No. 228 Webster and Charap, The Emergence of Private Sector Manufacturing in St. Petersburg: A Survey of Firms
No. 229 Webster, The Emergence of Private Sector Manufacturing in Hungary: A Survey of Firms
No. 230 Webster and Swanson, The Emergence of Private Sector Manufacturing in the Former Czech and Slovak Federal Republic: A Survey of Firms
No. 231 Eisa, Barghouti, Gillham, and Al-Saffy, Cotton Production Prospects for the Decade to 2005: A Global Overview
No. 232 Creighton, Transport and Economic Performance: A Survey of Developing Countries
No. 233 Frederiksen, Berkoff, and Barber, Principles and Practices for Dealing with Water Resources Issues
No. 234 Archondo-Callao and Faiz, Estimating Vehicle Operating Costs
No. 235 Claessens, Risk Management in Developing Countries
No. 236 Bennett and Goldberg, Providing Enterprise Development and Financial Services to Women: A Decade of Bank Experience in Asia
No. 237 Webster, The Emergence of Private Sector Manufacturing in Poland: A Survey of Firms
No. 238 Heath, Land Rights in Côte d'Ivoire: Survey and Prospects for Project Intervention
No. 239 Kirmani and Rangeley, International Inland Waters: Concepts for a More Active World Bank Role
No. 240 Ahmed, Renewable Energy Technologies: A Review of the Status and Costs of Selected Technologies
No. 241 Webster, Newly Privatized Russian Enterprises
No. 242 Barnes, Openshaw, Smith, and van der Plas, What Makes People Cook with Improved Biomass Stoves?: A Comparative International Review of Stove Programs
No. 243 Menke and Fazzari, Improving Electric Power Utility Efficiency: Issues and Recommendations
No. 244 Liebenthal, Mathur, and Wade, Solar Energy: Lessons from the Pacific Island Experience
No. 245 Klein, External Debt Management: An Introduction
No. 246 Plusquellec, Burt, and Wolter, Modern Water Control in Irrigation: Concepts, Issues, and Applications
No. 247 Ameur, Agricultural Extension: A Step beyond the Next Step
No. 248 Malhotra, Koenig, and Sinsukprasert, A Survey of Asia's Energy Prices
No. 249 Le Moigne, Easter, Ochs, and Giltner, Water Policy and Water Markets: Selected Papers and Proceedings from the World Bank's Annual Irrigation and Drainage Seminar, Annapolis, Maryland, December 8-10, 1992
No. 250 Rangeley, Thiam, Andersen, and Lyle, International River Basin Organizations in Sub-Saharan Africa
No. 251 Sharma, Rietbergen, Heino, and Patel, A Strategy for the Forest Sector in Sub-Saharan Africa
No. 253 Jensen and Malter, A Global Review of Protected Agriculture
No. 254 Frischtak, Governance Capacity and Economic Reform in Developing Countries
No. 255 Mohan, editor, Bibliography of Publications: Technical Department, Africa Region, July 1987 to April 1994
No. 256 Campbell, Design and Operation of Smallholder Irrigation in South Asia
No. 257 Malhotra, Sinsukprasert, and Eglington, The Performance of Asia's Energy Sector
No. 258 Willy De Geyndt, Managing the Quality of Health Care in Developing Countries
No. 259 Chaudry, Reid, and Malik, editors, Civil Service Reform in Latin America and the Caribbean: Proceedings of a Conference
No. 260 Humphrey, Payment Systems: Principles, Practice, and Improvements
No. 261 Lynch, Provision for Children with Special Educational Needs in the Asia Region
No. 262 Lee and Bobadilla, Health Statistics for the Americas
No. 263 LeMoigne, Subramanian, Xie, and Giltner, editors, A Guide to the Formulation of Water Resources Strategy
No. 264 Miller and Jones, Organic and Compost-Based Growing Media for Tree Seedling Nurseries