STANDARD ON QUALITY CONTROL

WHAT IS SQC?

- System of quality control – to be established by the Firm
- ‘reasonable’ assurance : Firm / personnel meet professional standards / regulatory and other legal requirements
- Why : Reports issued by the Firm are appropriate in the circumstance
- Responsibility lies with the Firm – assurance and related service engagements
- Other inputs : CA Act, Ethics, Other Pronouncements
- Policies and Procedures to be developed to comply with SQC
- SA 220 – Quality Control for Audit of FS is different

DIFFERENCE BETWEEN SQC AND SA 220

- SQC 1 says that audit firm is suppose to maintain systems at firm level to achieve quality in audit as an ultimate objective. Such principles will be applicable to all assurance & related assignments of the firm as per SQC1.

- On the other hand SA 220 deals with implementation of firm level quality control system to individual engagement level. Is applicable only to audit of historical information. It casts responsibility on engagement partner to implement quality control procedures.

WHAT ARE THE TYPICAL POLICIES / PROCEDURES?

1. Leadership responsibilities for quality within the firm
2. Ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring
   - **The quality control policies and procedures should be documented and communicated to the firm's personnel**
   - **each individual has a personal responsibility for quality and is expected to comply with these policies and procedures**
   - **the firm recognizes the importance of obtaining feedback on its quality control system from its personnel**

LEADERSHIP RESPONSIBILITIES – FOR QUALITY

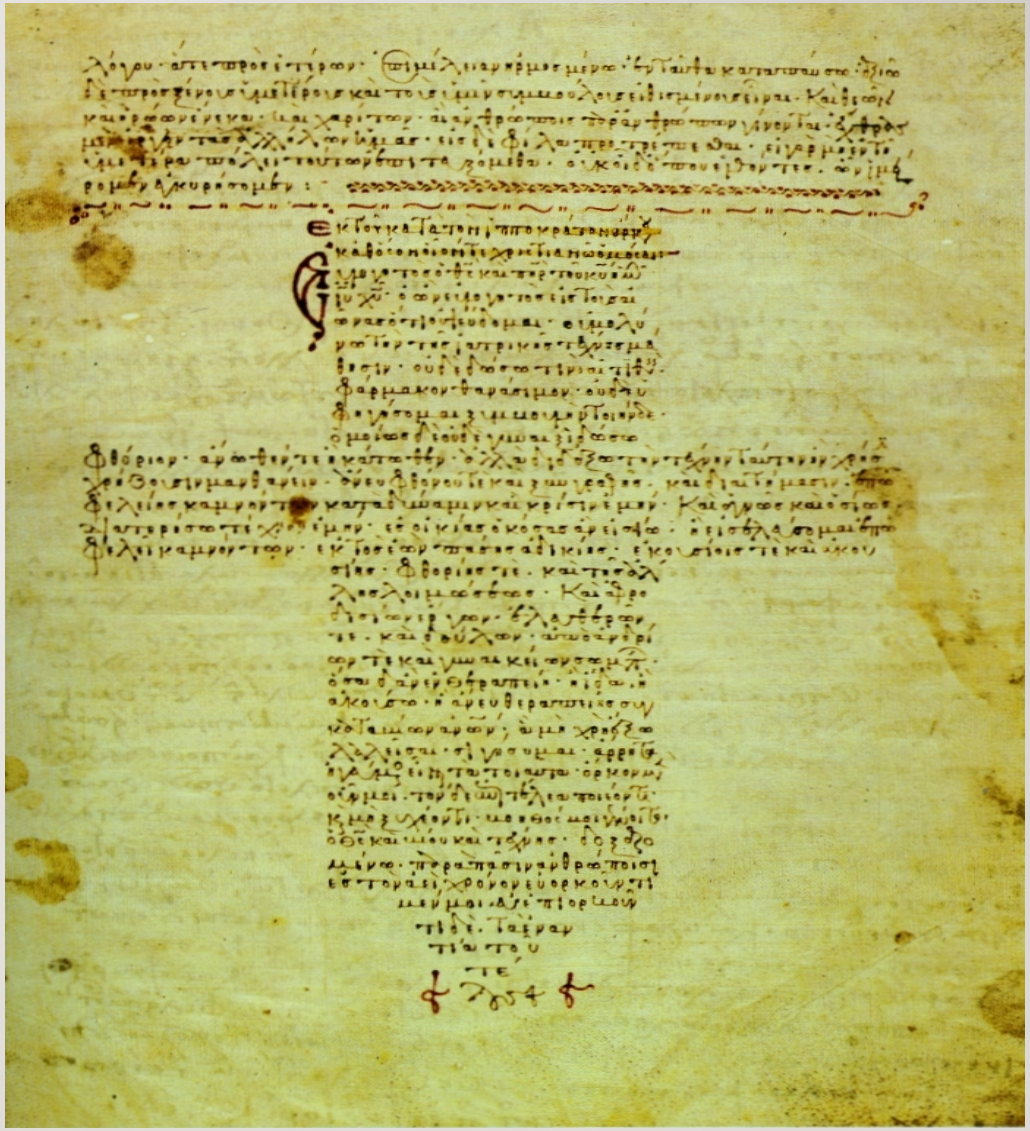
- Develop internal culture – quality is essential in engagements
- Ultimate responsibility for Firm's system of quality control
- Firm's leadership and examples they set – significantly influence the quality culture
- Communicate quality requirement at all times
- Quality to override business strategy
- Operational responsibility – person to have experience, ability, authority

ETHICAL REQUIREMENTS

- Fundamental principles of Professional Ethics :
- Integrity
- Objectivity
- Professional competence & due care
- Confidentiality
- Professional Behaviour

The **Hippocratic Oath** is an **oath** historically taken by **physicians**. It is one of the most widely known of Greek medical texts. In its original form, it requires a new **physician** to swear, by a number of healing gods, to uphold specific ethical standards.

I swear by Apollo The Healer, by Asclepius, by Hygieia, by Panacea, ….
I will use treatment to help the sick according to my ability and judgment, but never with a view to injury and wrong-doing. …therein.
Into whatsoever houses I enter, I will enter to help the sick, and I will abstain from all intentional wrong-doing and harm, especially from abusing the bodies of man or woman, bond or free. And whatsoever I shall see or hear in the course of my profession, as well as outside my profession in my intercourse with men, if it be what should not be published abroad, I will never divulge, holding such things to be holy secrets…….



INDEPENDENCE

- Should be independent; also appear to be independent to outsiders
- Firm to communicate Independence requirements to ALL within the Firm
- Identify and evaluate circumstances and relationships that create threats to independence
- Eliminate these threats or reduce them to acceptable levels; or…..
- Withdraw from the Engagement
- Breach of Independence requirements to be immediately communicated – Firm to have policies and procedures
- Annual written confirmation of compliance

THREATS TO INDEPENDENCE

- **Self-Interest Threat :** A self-interest threat exists if the auditor holds a direct or indirect financial interest in the company or depends on the client for a major fee that is outstanding.
- **Self-Review Threat :** A self-review threat exists if the auditor is auditing his own work or work that is done by others in the same firm.
- **Advocacy Threat :** An advocacy threat exists if the auditor is involved in promoting the client, to the point where their objectivity is potentially compromised.
- **Familiarity Threat :** A familiarity threat exists if the auditor is too personally close to or familiar with employees, officers, or directors of the client company.
- **Intimidation Threat :** An intimidation threat exists if the auditor is intimidated by management or its directors to the point that they are deterred from acting objectively.
- Other Conflicts of Interest : Defined by Regulatory dictacts

ACCEPTANCE & CONTINUATION – CLIENT RELATIONSHIPS

- Policies & procedures to evaluate prospective client / continue existing relationships
- Criteria : Integrity of client / Firm's competency to perform the engagement / can comply with ethical requirements
- ICAI has now brought out KYC norms / Major Fee dependency disclosures

SOME FACTORS TO CONSIDER …..

- Identity / business reputation of owners / key management / related parties
- Nature of client operations / business practices
- Owners / key management attitude on aggressive stand on AS / internal control environment matters
- Client aggressive to maintain low fees / inappropriate limitation to scope of work
- Money laundering / criminal activities
- Reasons for appointment / non-appointment of earlier Firm…

AFTER APPOINTMENT…WITHDRAWAL……

- Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:
- (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
- (b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

POLICIES TO INCLUDE ….

- Discuss with client what options the Firm has and might take….
- If Firm determines it is appropriate to withdraw.... Discuss with client the reasons....
- Consider whetehr there is a professional, legal or regulatory requrirement to remain in place or report the withdrawal; reasons for withdrawal – to regulatory authorities
- Document discussions, significant issues, consultations, conclusions, basis of conclusions

HUMAN RESOURCES

- Objective : sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements
- Firm to ensure adequate policies and procedures to attain the above objective. How?
- To address – recruitment, performance evaluation, capabilities, competence, career development, compensation, estimation of personnel needs
  - *Addressing these issues enables the firm to ascertain the number and characteristics of the individuals required for the firm's engagements.*
  - *The firm's recruitment processes include procedures that help the firm select individuals of integrity as well as the capacity to develop the capabilities and competence necessary to perform the firm's work.*

ASSIGNMENT OF ENGAGEMENT TEAMS

- Firm to identify engagement partner – communicate to client (key persons)
- Capability, competence, authority, time : needed.
- Appropriate staff –
  - An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
  - An understanding of professional standards and regulatory and legal requirements.
  - Appropriate technical knowledge, including knowledge of relevant information technology.
  - Knowledge of the relevant industries in which the clients operate.
  - Ability to apply professional judgment.
  - An understanding of the firm's quality control policies and procedures

ENGAGEMENT PERFORMANCE

- The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances
- Briefing / Process of complying with engagement standards / engagement supervision, staff training, coaching / Methods of reviewing the work performed, the significant judgments made and the form of report being issued / appropriate documentation

SUPERVISION INCLUDES…..

- Tracking the progress of the engagement.
- Considering the capabilities and competence of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement.
- Addressing significant issues arising during the engagement, considering their significance and appropriately modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement

CONSULTATION

- For difficult or contentious matters
- Sufficient resource availability; nature, scope, conclusions – document
- Appropriate professional level – within or external – all relevant facts to be given

DIFFERENCE OF OPINION

- The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented
- The report should not be issued until the matter is resolved.

ENGAGEMENT QUALITY CONTROL REVIEW

- evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report
- All listed companies, other engagements based on criteria policy
- The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued

MATTERS TO CONSIDER

- The engagement team's evaluation of the **firm's independence** in relation to the specific engagement.
- Significant **risks** identified during the engagement and the responses to those risks.
- **Judgments** made, particularly with respect to materiality and significant risks.
- Whether appropriate consultation has taken place on matters involving differences of opinion or other **difficult or contentious matters**, and the conclusions arising from those consultations.
- The significance and disposition of **corrected and uncorrected misstatements** identified during the engagement.
- The **matters to be communicated to management** and those charged with governance and, where applicable, other parties such as regulatory bodies.
- Whether **working papers** selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
- The **appropriateness of the report** to be issued

MONITORING

- Objective : system of quality control are relevant, adequate, operating effectively and complied with in practice
- ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements
- Purpose of monitoring : adherence to professional standards, regulatory / legal requirements; quality control system is ok – appropriate / effective; end result – appropriate deliverable
- Firm to identify someone responsible for this – internal or external
- an independent external inspection program does not act as a substitute for the firm's own internal monitoring program (which can be done by an external expert).
- Communicate findings on annual basis

MAINTENANCE & UPKEEP !

- Analysis of new developments in professional standards, regulatory / legal requirements
- Continuing professional development
- Determination of corrective actions / improvements
- Communicate to appropriate personnel – weakness identified, level of understanding, compliance therewith
- The inspection of a selection of completed engagements is ordinarily performed on a cyclical basis. Engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle