

1. Standard on Quality Control (SQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”

and


2. Quality Control for an Audit of Financial Statements



Key objectives

- Understand the coverage
- Learn the responsibilities of:
 - The Firm's leadership
 - The Engagement Team
- Understand and learn Key Concepts
- Understand implementation challenges, for large and small firms

Preface to SQC - 1



SQC 1 – Responsibility of the Firm & its Personnel

To establish System of Quality Control

Comprising of policies, and

Procedures for Implementation & Monitoring

To provide reasonable assurance on the following:

- (a) Comply with Professional Standards
- (b) Comply with Regulatory and Legal Requirements
- (c) Issue appropriate reports.

Document, Communicate, Explain the Objectives of each P&Ps' and make it clear that Partners and Professional Staff are responsible to comply with it.

Essential Elements of System of Quality Control:

- Responsibility of Leadership for Quality within the firm
- Ethical Requirements
- Acceptance and continuance of client relationships
- Human Resources
- Engagement Performance
- Monitoring [including Feedback]

Responsibility of Leadership for Quality within the firm

- Individual with adequate experience, background, capability and authority **should** own-up the role in the firm, to drive the culture of quality
- Culture of Quality, an essential element for performing engagements
- Leaders in the firm MUST **“Walk the talk”**
- Develop a system of clear, consistent and regular communication on the importance of quality
- Staff the team with adequate resources depending on the size and nature of the firm
- Reward personnel for their high-quality work

Leadership to recognize that “Consideration to Quality would override the firm’s commercial strategy”

Commercial consideration do not override quality of work performed

Quality

Quality

Quality

Ethical requirements

- Clear and consistent communication on Ethical Requirements, as stated in the Code of Ethics
- Educate, monitor and take action, for non-compliances with the Code, which establishes fundamental principles of professional ethics:
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional Behaviour
- Policies and procedures with reference to
 - Complying with Auditor's Independence
 - Identification of threats to Independence
 - Implement safeguards

Policies & Procedures should enable prompt notification of any identified threats or breaches of compliance with independence rule

Develop a system to gather, retain, retrieve data about firm personnel's investments

Threats to Independence

- Self interest
- Self review
- Advocacy
- **Familiarity**
[Rotation of Partner]
- Intimidation

At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code

Rules for Partners rotation, listed & other entities

Demonstrate the evidence of action taken for any non-compliances

Acceptance and Client Continuance

- Integrity of client's principal owners, its KMPs and other senior management
- Firm's ability and /or competency level, to perform the engagement
- Firm's ability to comply with Ethical Requirements
- Firm's experience basis the engagement performed for the previous year.

Human Resources

- (a) Recruitment
- (b) Performance evaluation
- (c) Capabilities
- (d) Competence
- (e) Career development
- (f) Promotion
- (g) Compensation; and
- (h) Personnel needs.

Communicate firm's expectations on performance & ethical principles

Provide feedback and counseling on, performance, progress and career development

Convey quality & adherence to ethical principles is key for growth

failure to comply with the firm's policies and procedures may result in disciplinary action.

- Continuing professional development, including training
- Work experience
- Coaching by more experienced staff, for example, other members of the engagement team.

Balance the workload of partners and staff to perform quality audits and comply with the firm's policies.

Engagement Performance

- Policies and Procedures to comply with Professional Standards, regulatory and legal requirements
 - Aimed at quality of engagement performance
 - Provide guidance to engagement team
 - On industry specific matters
 - On subject specific matters
 - On process for how to comply with the professional standards
 - On process of effective supervision
 - On manner of documentation of work done
 - On how to monitor progress of assignments
- Consultation
 - On difficult and contentious matters
 - Ensure that consultation & conclusion is documented, and adequate staff is available within the firm for CP
 - Procedure to deal with difference of opinion between Engagement Team and the Consultation team
 - Auditor's report should not be issued until the matter of consultation is resolved.

Engagement Performance

- Engagement Quality Control Review:
 - Policies & procedures on
 - on selection of EQCR – [Technical qualification and Experience is key!!]
 - Who should select the EQCR
 - Mandatory coverage
 - Optional coverage
 - EQCR process **Must** be completed before release of reports and shall include review of:
 - Client Acceptance Procedures / Matters of independence
 - Significant risk of material misstatements due to Fraud and Error
 - Discussions with Engagement Partner on significant matters
 - Reports and financial statements for appropriateness
 - Work-papers for critical matters of estimates and judgments
 - Work- papers for account balances/ or transactions identified as prone to RoMM due to Fraud or Error
 - Consultation process followed on the job
 - The role of EQCR is not a substitute for the overall responsibilities of the Engagement Partner
 - Demonstrate through evidence of EQCR role being performed

Other important considerations

1. Documentation / Archival

- Archival of electronic and paper files
- Confidentiality, safe custody, accessibility and retrievability
- Period of retention of engagement documentation
- Ownership of documentation

2. Monitoring

- Annual / periodical inspection of work completed
- Selection of inspector to perform such inspections
- Extent of coverage [All Partners / Staff]
- Considerations governing selection of engagement file for inspection
- Consideration for **evaluation, conclusion** and **remedial actions** to be taken on finding of inspection

3. Complaints and Allegations

4. Documentation evidencing compliance with SQC

2. Quality Control for an Audit of Financial Statements



Larger Picture – Purpose of audit?

Enhance investors confidence

Achieved through audit opinion

Opinion on True & Fair View of the financial statements

Obtain Sufficient Appropriate Audit Evidence to Support the opinion

Conduct audit in accordance with SA's & Relevant Ethical requirements

Background

- SA 220 deals with **Implementation** of QCP; SQC 1 primarily deals with Design of QCPs
- **Engagement team** to Implement Quality Control Procedures to enable compliances with:
 - Applicable **professional standards**
 - Applicable regulatory and legal requirements
 - Issuance of audit opinion, appropriate under the given circumstances
- Primary responsibility lies with the **Engagement Partner** for:
 - The overall quality of audit
 - The performance of audit; and
 - The appropriateness of the opinion issued

Ethical Requirements

- Compliance with the fundamental ethical requirements such as:
 - **Integrity**, honesty and straight forwardness
 - **Objectivity**, unbiased, no compromises on judgments, avoid conflicts
 - **Professional competence and due care**, “Learn, unlearn, and re-learn”
 - **Confidentiality**, always respect confidentiality
 - **Professional behavior**, avoid conduct which may bring discredit to the profession

Preliminary activities

- Comply with independence requirements and apply necessary safeguards]
- Client acceptance and Re-Acceptance
 - Integrity of principal owners, KMPs and TCWG
 - Capabilities and Bandwidth
 - Ability to comply with ethical requirements
 - Difficulties in previous audit and its implications
- Assignment of Engagement Teams
 - Competency
 - Capabilities

Engagement performance

- Engagement Partner shall take responsibility for:
 - Direction of audit
 - Supervision of the audit progress
 - Performance of the audit; and
 - Appropriateness of Report issued by the auditors

Review responsibilities

- Review of work done, and assess:
 - Whether audit evidence is sufficient appropriate to support the opinion
 - Whether documentation is appropriate
 - Whether additional risks were identified and concluded appropriately
 - Whether the work done support the conclusions reached
 - Whether the work done is in compliance with professional standards
 - Whether the objective of the audit procedure is achieved
 - Whether work of auditor's expert is in agreement with plan
- Matters for Partner's timely attention
 - Critical matters of Judgment, and difficult & contentious matters
 - Matters of significant risks

Others

- **Consultation**, when in doubt consult
- Engagement Quality Control Review, where applicable
 - Significant matters, significant judgments, significant risks
 - Review of financial statements
 - Review of critical working papers
 - Evaluate the conclusions reached
 - Evaluate the impact of recorded and unrecorded misstatements
 - Cannot issue audit opinion without EQCR being completed
 - Matters communicated with TCWG
- **Documentation** – Engagement Team and EQCR, Refer SA 230

Thanks

