Standard on Quality Control (SQC-1)

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Agenda

- Setting the Context
- Elements of SQC
- SQC and SMP
- Challenges and Benefits
Setting the Context
Setting the Context

COMPANY LAW

AUDITING STANDARDS

ICAI CODE OF ETHICS
Setting the Context

- COMPANY LAW
- AUDITING STANDARDS
- ICAI CODE OF ETHICS
- QUALITY CONTROL STANDARDS
### Setting the Context

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Hence Need for Standard.............
ICAi issued SQC in 2007, effective from April 1, 2009

This standard will be applicable to all the professional firms* that performs:

- **Audit** of Historical Financial Information
- **Review** of Historical Financial Information
- **Assurance** and Other Related Services Engagements

*Proprietorship & Partnership.*
• To establish a system of quality control
• The firm and its personnel comply with
  • professional standards and
  • regulatory and legal requirements,
• Reports issued by the firm or engagement partner(s) are appropriate

Hence it deals with COMPLIANCE and QUALITY
Objectives of SQC - 1

- Establish Standards for Firms i.e SOP
- Provide Guidance to achieve its Objective
  - Value Services to Clients
  - To Grow
  - To have Good Team
- Provide outlines for designing and implementation of Policies & Procedures to ensure “Quality” in firm’s performance
Nature of Policies & Procedures, & Manner, Contents & Form of Documentation, depends upon factors like:

- Size of the firm and number of offices;
- Nature and complexity of the firm’s practice; and
- Risks associated with the firm’s practice and specific engagements
Elements of SQC
System of Quality control (QC) should include Policies & Procedures (P&P) addressing:

- Leadership responsibilities for QC within the firm
- Ethical Requirements
- Acceptance and continuance of client
- Human Resources
- Engagement Performance
- Monitoring
- Documentation
Elements of SQC - 1

DOCUMENTATION

&

COMMUNICATION
Elements of SQC - 1

Firm should also

• Review QC P&P periodically
• Monitor it & get the feedback on QC P&P
• Update it’s QC P&P, if required
• Make sure its operations
• Put in place the crises management system (i.e. course of action, in case of non-compliance)
1. Leadership of QC

- To promote an internal culture to recognise the fact that “Quality is essential in performing engagements”;

- Managing Partner/CEO or equivalent must assume responsibilities for Firm’s System of QC;
1. Leadership of QC

- Partners

- Quality Control

Operational Responsibility

- Experience
- Ability
- Authority
- Identify Issues
- Develop Policies & Procedures
Next big Question
How to promote & take lead?

Reply:
• Leaders must set example by their own conduct
• Communicate System of QC to the firm’s personnel by way of organizing Training, workshops, formal newsletters etc.
2. Ethical Requirements

“....Code of Ethics”
2. Ethical Requirements

Fundamental Principles

- Integrity
- Professional Competence & Due Care
- Objectivity
- Confidentiality
- Professional Behaviour
2. Ethical Requirements

For all these Independence matters, this SQC-1 has put lot of responsibilities on the shoulders of “Engagement Partner”
2. Ethical Requirements

At least Annual → Written Confirmation
2. Ethical Requirements

High Risk: 10 Years  Listed Audits: 7 Years
Rotation of Audit Partners

Other Audits: 10 Years Safeguards

Safeguards to reduce the familiarity threat
3. Acceptance/ Continuation

- Relationships
- Specific Engagements
3. Acceptance/ Continuation

- New Clients
- Continue an existing engagement
- New engagement – existing client
3. Acceptance/ Continuation

(a) Competence, capabilities, time, resources
(b) Ethical Requirements
(c) Integrity of Client
3. Acceptance/ Continuation

- New Client – Communicate with previous auditors
- Conflicts of Interest
- Engagement Letter
- Withdrawal Policies and Reporting
3. Acceptance/ Continuation

**Integrity of client**

- Business **Reputation** of the client’s principal owners, key management, related parties
- Business **Practices** of the client
- Client’s **Intentions** as regard **reduction** of the firm’s **fee** as low as possible or try to **limit the scope** of work
- Indulge in any **illegal activities** etc
- **Past record** with the professionals
3. Acceptance/ Continuation

**own capability**

- Desired **knowledge** of relevant industry
- **Experienced personnel**, who have got knowledge of relevant regulatory or reporting requirements
- **Sufficient personnel** with the necessary capabilities and competence.
- Capability to complete the assignment and issue report within **given timeframe**
4. Human Resources

- QC Manual
- HR Manual
4. Human Resources

To ensure it has sufficient personnel with the
# Capabilities
# Competence
# Commitment to ethical principles

Required to perform engagement as per professional standards to enable the firm or engagement partner to issue reports.
4. Human Resources

- Recruitment
- Performance Evaluation
- Competence, Capabilities, Time
- Career Development
- Promotion
- Compensation
- Estimation of Personnel Needs
4. Human Resources

- Assignment to Engagements
  - Partners
  - Teams
- Communicate to client
- Define Role
4. Human Resources

Appraisal Forms: Quality Control

- Understanding
- Compliance
4. Human Resources

Training – Effective?
5. Engagement Performance

Engagements are
• consistently performed
• in accordance with professional standards
• and regulatory and legal requirements,

and the firm or the engagement partner issues reports that are appropriate in the circumstances.
5. Engagement Performance

P&P to address:

• How the assignment is to be performed?
• How engagement team would be briefed about the objectives of the assignment to be achieved?
• How to supervise & Review the work performed?
• When & how to take Consultation, in case it requires to resolve the complicated issues?
• How to resolve the difference of opinion?
5. Engagement Performance

- QC over each engagement
- Consultations
- Engagement QC Reviews
- Differences of Opinion
- Engagement Documentation
5. Engagement Performance

- Consistency
- Supervision
- Review
Consistency

• Team Briefing
• Engagement Standards
• Processes – supervision, training, coaching
• Processes – review of work, judgements and reports
• Documentation
5. Engagement Performance

**Supervision:**

- Tracking progress
- Team management
- Issues
- Consultations
5. Engagement Performance

Review:
- Professional standards/law
- Issues raised
- Consultations
- Revise plans
- Work supports conclusions
- Sufficient appropriate evidence
- Engagement objective
5. Engagement Performance

* Consultation

* Process

Encourage
Document
Both agree
Implement

May 30, 2015
SQC–1
5. Engagement Performance

Engagement Quality Control Reviews

- Which engagements
- Nature, timing and extent
- Listed entities
- Criteria for eligibility – reviewers (internal/ external)
- Documentation
5. Engagement Performance

Engagement Quality Control Reviews

- Consultation with Engagement Quality Control Reviewer – encouraged
- Objectivity
  - Not selected by Engagement Partner
  - No decisions for team
Difference of opinion could be exist between:

- Engagement partner & Reviewer;
- Engagement partner & Quality Control Reviewer
- Engagement partner & Audit staff
- Engagement partner & Independent consultants.

In that case it is **mandatory** as per SQC-1 to document those matters, where the difference of opinion exist and **firm should not issue report until matter is resolved.**
5. Engagement Performance

Documentation

• Confidentiality, Safe Custody, Integrity, Accessibility & Retrievability of Client Documentation
• Retention of documents
  – For firm
  – For law
• Ownership
5. Engagement Performance

Documentation

- **Assembly of Final Engagement Files**: The P&P of the firm ensure the assembly of engagement files after the issue of engagement reports.

- The P&P of the firm should ensure that the **confidentiality** of information as contained in the “Engagement Letter” must be maintained unless client or law of the land permits otherwise.
Retention of Engagement Documents:
The P&P of the firm should ensure that engagement documents should retain for a period sufficient to meet the needs of the firm or as required by law or regulation.

SQC-1, in this regard says that “The retention period ordinarily is no shorter than 7 years from the date of the auditor’s report, in case of Audit engagement.”

Unless otherwise specified by law or regulation, engagement documentation is the property of the firm.
Monitoring procedures may be accomplished through the performance of:

- Engagement quality control review
- Post-issuance review of engagement
- Inspection procedures like peer review, internal review
6. Monitoring

The firm should establish P&P to ensure that the System of QC are:

• Relevant
• Adequate
• Operating Effectively and
• Complied with in practice by firm & its personnel.
6. Monitoring

- Ongoing evaluation of appropriateness of design and operating effectiveness
- Assign responsibility for the monitoring process to a partner
- Assign performance of the monitoring process to competent individuals
- Perform sufficiently comprehensive procedures
6. Monitoring

- Review of selected **administrative and personnel records** pertaining to the quality control elements
- Review of **engagement working papers**, reports, and clients' financial statements
- Discussions with the firm's personnel
- Summarization of the findings from the monitoring procedures, at least annually, and
- Assess causes of findings that indicate that improvements are needed
6. Monitoring

Assessment of

– The appropriateness of the firm’s guidance materials and any practice aids;
– Updates on New developments in professional standards and regulatory and legal requirements
– The effectiveness of continuing professional development, including training;
– Decisions related to acceptance and continuance of client relationships and specific engagements; and
– Firm personnel’s understanding of the firm’s quality control policies and procedures and implementation thereof
Self-inspection

- Not prohibited
- Higher risk that noncompliance with policies and procedures will not be detected
6. Monitoring

Complaints & Allegations

- Procedures to deal appropriately with complaints and allegations
  - Clear channels for personnel to raise concerns without fear of reprisal
  - Documentation of complaints and responses
7. Documentation

• Document evidence of the operation of each element of its system of quality control.
  – Form and content based on firm characteristics
• Retain this documentation for a period of time sufficient to permit those performing monitoring procedures and peer review to evaluate the firm’s compliance.
7. Documentation

- Evidence of operation
- Retention of documents
- Documentation of complaints/allegations
7. Documentation

QC Manual
- X-ref to SQC 1
- X-ref each Policy to a Procedure
- X-ref each Procedure to a Form to Monitor

Each Standard to:
- Manual
- Work program/Checklist
SQC and SMPs
IAASB

This is based on document prepared by IAASB staff. It is a non-authoritative document issued for information purposes only.
• To apply SQC 1 in a relevant and cost-effective way. To avoid “Standards Overload”

• Proportionate application, including that:
  – Firms need only comply with those requirements that are relevant to the services provided
  – Firms can exercise appropriate judgment in implementing a system of quality control, for example, in deciding how formal certain processes need to be to comply with the requirements of ISQC 1 or in documentation of the system.
  – Firms can draw on external resources to meet some of the requirements of SQC 1 like quality review

• Developing policies and procedures tailored to the firm’s circumstances
How does SQC 1 address the fact that the characteristics of a smaller firm are significantly different from those of a larger firm?

– The **objective of implementing** a system of quality control is the **same for all firms** regardless of their nature or size.

– However, this does **not mean** that all firms have to **design and implement exactly the same** specific policies and procedures, or policies and procedures at the same level of detail, to achieve the objective and requirements of SQC.

– SQC 1 recognizes that the nature and extent of the specific policies and procedures to be developed by a firm to comply with ISQC 1 will **depend on various factors**, such as the **size and operating characteristics of the firm and whether it is part of a Network**
Consider the case of a sole practitioner, with no staff, that performs only compilation engagements in accordance with SRS 4410 (Revised) and does not perform audit, review or other assurance engagements. In this circumstance, there are requirements in SQC 1 that would not be relevant and, accordingly, need not be implemented.

SQC 1 also acknowledges the importance of exercising appropriate judgment in implementing a system of quality control. For example, SQC 1 indicates that the form and content of documentation is a matter of judgment and will depend on a number of factors.
Further, some requirements of ISQC 1 may be easier for smaller firms to implement. For example, in relation to the requirement that addresses the importance of promoting an internal culture recognizing that quality is essential, smaller firms may be able to achieve this simply through leading by example and various communications between staff and leadership as they occur on a regular basis.

Finally, the approach to establishing quality control policies and procedures in a smaller firm may be less formal and structured. For example, smaller firms may employ less formal methods in carrying out performance evaluations for their staff.
SQC and SMP – IAASB (Q&A)

• SQC 1 states that a firm needing to consult externally for example, a firm without appropriate internal resources, may take advantage of advisory services provided by:
  – Other firms;
  – Professional and regulatory bodies; or
  – Commercial organizations that provide relevant quality control services.

• Need for sufficient personnel with the competence and capabilities to perform engagements in accordance with professional standards, firms may use a suitably qualified external person, Often, this will likely be an effective (and cost effective) way to achieve the aims of the requirements.
Challenges and Benefits
Challenges on Compliances of SQC

1) Leadership Responsibility
   • Policies /Procedures not reviewed and Documented
   • Staff not confirming have read and understood

2) Independence and Ethical Requirements
   • Independence declaration from Staff not obtained

3) Client Acceptance and Continuance
   • No integrity checks including client identification
   • Firm’s competency not assessed
   • Engagement letter not issued
Challenges on Compliances of SQC

4) Human Resources
   • References not obtained for new staff
   • Insufficient training
   • Staff appraisal not done or informal,
   • No defined roadmap for employees

5) Engagement Performance
   • Audit Methodology not effective,
   • Ineffective Team Allocation
   • Lack of supervision and Control
   • Improper Documentation
Benefits of SQC

Firm Level

- Standardized Process, Controls
- Ethics Independence and Values
- Ensure Compliance with all Relevant Standards, Regulations
- Client KYC, Risk Mitigation
- Strengthening of Documentation process
- Alerts and Actions on wrong practices within organisation
Benefits of SQC

Clients

• Enhancing Client’s Confidence in services provided by Firm
• Continuous Improvement in Quality of Audit
• Builds Competitive Edge

HR

• Recruitment and Retention of Employees
• Good Working Environment
• Proper Utilization of Resources, which helps to increase Efficiency
Questions ?
Thank You

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