
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

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Objective

- ▶ **Issued by** – Institute of Chartered Accountants of India (ICAI)
- ▶ **Effective Date** – April 1, 2009
- ▶ **Objective** - to provide the firm with reasonable assurance that its personnel comply with applicable professional standards as well as the regulatory and legal requirements in addition to the firm's policies in respect of quality and ethics.

Introduction

▶ **Purpose**

To establish standards & provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial statements and for other assurance and related services engagements.

- ▶ SQC 1 is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and any other relevant pronouncement of the Institute and relevant legal or regulatory requirement.

Key definitions

- ▶ **Engagement documentation** - the record of work performed, results obtained, and conclusions the practitioner reached (also referred to as “working papers” or “workpapers”)
- ▶ **Engagement quality control review** – a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
- ▶ **Engagement team** – all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
- ▶ **Reasonable assurance** – a high, but not absolute, level of assurance.

Elements of System of Quality Control

- ▶ Leadership responsibilities for quality within the firm
- ▶ Ethical requirements
- ▶ Acceptance and continuance of client relationships and specific engagements
- ▶ Human resources
- ▶ Engagement performance
- ▶ Monitoring

Leadership Responsibilities for Quality within the Firm

- ▶ Influence the internal culture of the firm.
- ▶ Design policies and procedures to promote an internal culture
- ▶ Assume ultimate responsibility for the firm's system of quality control.

Policies and Procedures to achieve objectives

- ▶ Ultimate responsibility of the Managing Partner.
- ▶ Commercial considerations do not override the quality
- ▶ Responsibility assigned to appropriate personnel
- ▶ Performance evaluation, compensation and advancement
- ▶ Allocation of appropriate resources for quality control.

How to communicate policies ??

- ▶ Training Seminars
- ▶ Meetings
- ▶ Formal or informal dialogue
- ▶ Mission Statements
- ▶ Newsletters
- ▶ Briefing Memoranda
- ▶ Through partner and staff appraisal procedures

Ethical requirements

- ▶ Design policies and procedures to provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements.
- ▶ Conceptual approach to independence for assurance engagements

Fundamental Principles of Professional Ethics

- ▶ Integrity
- ▶ Objectivity
- ▶ Professional competence and due care
- ▶ Confidentiality
- ▶ Professional behavior

Reinforcement of firm policies

- ▶ The firms policies and procedures should be reinforced in particular by:
 - ▶ The leadership of the firm
 - ▶ Education and training
 - ▶ Monitoring
 - ▶ Process for dealing with non-compliance

Independence for Assurance Engagements

- ▶ Reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence.
- ▶ Such policies and procedures should enable the firm to:
 - ▶ Communicate its independence requirements to its personnel and others
 - ▶ Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level.

Independence Requirement

- ▶ Partners to provide the firm with information about client engagements.
- ▶ Prompt notification to the firm of any threats to independence.
- ▶ Accumulation and communication of relevant information to appropriate personnel.

Policies & Procedures to identify breaches of Independence.

- ▶ Personnel to promptly notify the firm of independence breaches.
- ▶ Communication of identified breaches to the engagement partner.
- ▶ Communication of identified breaches to other relevant personnel, who are subject to the independence requirements.
- ▶ Communication to the firm, by the engagement partner of the actions taken to resolve the matter.

Threats To Independence

- ▶ **Self-interest Threat** – Auditing firm, partner or associate has financial interest in an audit client.
- ▶ **Self-review Threat** – Member of audit team was previously a director or senior employee of the client.
- ▶ **Advocacy Threat** – When an auditor promotes client's opinion.
- ▶ **Familiarity Threat** – Auditor forms relationships with the client and ends up being too sympathetic to the interests of the clients.
- ▶ **Intimidation Threat** – Auditor is deterred from acting objectively with an adequate degree of professional skepticism.

Safeguards against Independence Threats

- ▶ Involving an additional partner who is not associated with the audit engagement.
- ▶ Rotation of senior partners or professional staff.
- ▶ Discussing independence issues with the auditee's audit committee.
- ▶ Withdrawing an individual from an audit, when that individual's economic or financial interests create a threat to independence.

Safeguards against Independence Threats

- ▶ Withdrawal from an engagement if safeguards to reduce threats to independence to an acceptable level cannot be applied.
- ▶ Annual written confirmation, of compliance with firms policies and procedures on independence.
- ▶ Procedures for confirming the independence of another Firm that performs part of the engagement.

Policies & Procedures to achieve Objectives.

- ▶ Ensure that the personnel adhere to ethical requirements such as those contained in the Code.
- ▶ Establish procedures to communicate independence requirements.
- ▶ Establish procedures to identify and evaluate possible threats to independence and objectivity.

Acceptance and Continuance of Client Relationships and Specific Engagements

- ▶ The acceptance and continuance Quality Control policies are designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only where it-
 - ▶ Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
 - ▶ Is competent to perform the engagement and has the capabilities, time and resources to do so
 - ▶ Can comply with the ethical requirements.

Client Acceptance And Continuance

- ▶ The Firm should obtain such information as it considers necessary:
 - ▶ before accepting an engagement with a new client;
 - ▶ when deciding whether to continue an existing client relationship and/or engagement; and
 - ▶ when considering acceptance of a new engagement with an existing client.

Policies & Procedures to achieve Objectives.

- ▶ The Firm satisfies this objective, by establishing and maintaining the policies and procedures described below:
 - ▶ Evaluate factors that have a bearing on management's integrity and consider the risk.
 - ▶ Evaluate whether the engagement can be completed with professional competence
 - ▶ Obtains an understanding with the client regarding the services to be performed.

Policies & Procedures to achieve Objectives.

- ▶ Establish procedures on withdrawal from an engagement.
- ▶ Document how issues relating to acceptance or continuance of client relationships and specific engagements were resolved.
- ▶ Evaluate at the end of specific periods or upon occurrence of certain events, whether the relationship should be continued.

Human Resources

- ▶ The Firm's policies and procedures should be designed to provide it with reasonable assurance
 - ▶ that it has sufficient personnel
 - ▶ with the capabilities, competence, and commitment
 - ▶ to ethical principles necessary to perform its engagements
 - ▶ in accordance with professional standards
 - ▶ and regulatory and legal requirements
 - ▶ to enable the Firm or engagement partners
 - ▶ to issue reports that are appropriate in the circumstances.

Human Resources

- ▶ Policies and procedures related to human resources normally address the following personnel issues:
 - ▶ Recruitment
 - ▶ Performance evaluation
 - ▶ Capabilities
 - ▶ Competence
 - ▶ Career development
 - ▶ Promotion
 - ▶ Compensation
 - ▶ The estimation of personnel needs

Policies & Procedures to achieve Objectives.

- ▶ Personnel who are hired possess the characteristics that enable them to perform competently.
- ▶ Determine capabilities and competencies required for an engagement, including those required of the engagement partner.
- ▶ Determine the capabilities and competencies possessed by personnel.
- ▶ Assign the responsibility for each engagement to an engagement partner.

Policies & Procedures to achieve Objectives.

- ▶ Assign personnel (including partners) based on the knowledge, skills, and abilities required in the circumstances and the nature and extent of supervision needed.
- ▶ Personnel participate in general and industry-specific continuing professional education and development (CPED) activities that enable them to accomplish assigned responsibilities.
- ▶ Personnel selected for advancement have the qualifications to fulfill the responsibilities they will be called on to assume.

Monitoring

- ▶ The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.
- ▶ Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

Purpose

- ▶ The purpose of monitoring compliance with quality control policies and procedures is to ensure:
 - ▶ Adherence to professional standards and regulatory and legal requirements
 - ▶ appropriate designing and effectively implementation of the quality control system.
 - ▶ That the firm's quality control policies and procedures have been appropriately applied.

Complaints & Allegations

- ▶ The firm should establish policies and procedures to deal with complaint and allegations that:
 - ▶ The work performed fails to comply with professional standards and regulatory and legal requirements.
 - ▶ Non-compliance with firm's quality control system.
- ▶ Investigation of complaints and allegations should be done by:
 - ▶ A partner having sufficient experience and authority in the firm and who was not involved in the engagement.
 - ▶ A suitably qualified external person
 - ▶ Another firm.

Policies & Procedures to achieve Objectives.

- ▶ The Firm satisfies this objective by establishing and maintaining the policies and procedures below.
 - ▶ Assign responsibility for the monitoring process to a partner or competent individual.
 - ▶ Perform monitoring procedures that helps the firm to assess compliance with all applicable professional standards.
 - ▶ Communicate deficiencies noted out of monitoring process and recommendations for appropriate remedial action.
 - ▶ Communicate the results of the monitoring to relevant Firm personnel at least annually.

Policies & Procedures to achieve Objectives.

- ▶ Deal appropriately with complaints and allegations.
- ▶ Prepare appropriate documentation to provide evidence of the operation of each element.
- ▶ Retain documentation providing evidence of the operation of the system of QC for an appropriate period of time.
- ▶ Firm shall get itself 'peer reviewed' by an external reviewer under the "Peer Review" process established by the ICAI.

Questions

Govind Ahuja, 66579430