Developing, documenting and implementing an JSQC1 policy for an SMPs SESSJON 1

PRESENTER

VANICE MUIA

ISOC 1 - International Standard on Quality Control 1

What is ISQC1?

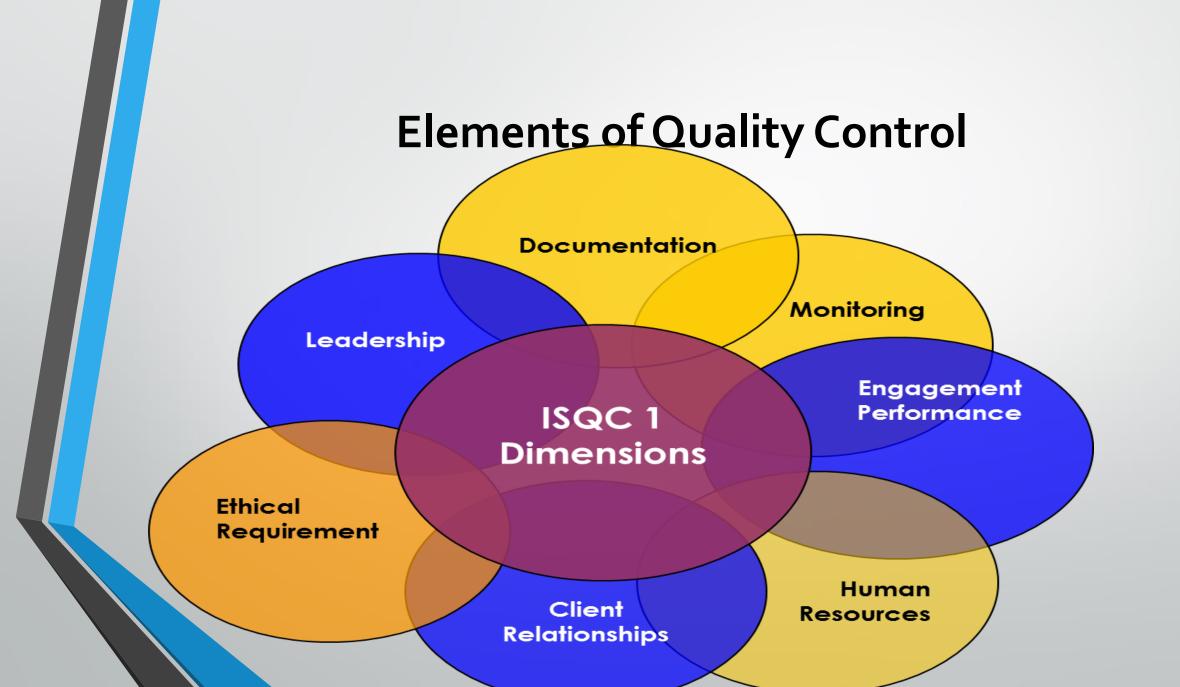
It is an International standard which deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements.

Purpose of ISQC 1:

- To establish a system of quality control (policies and procedures);
- To provide firm with reasonable assurance that the firm and members of the firm comply with professional standards and regulatory and legal requirements; and
 - To ensure that reports issued by the firm is appropriate in the circumstances

Elements of Quality Control

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



Developing and Documenting a Quality Assurance Policy

The nature and extent of the policies developed by a firm will depend on factors such as:

- Size
- Operating characteristics of the firm
- Whether the firm is part of a network

All firms are required to comply with the requirements established in this Std

1. LEADERSHIP

- This policy is designed to promote an internal culture of quality within the firm
- The policies established by the firm should require that:
 - The managing partner/CEO assumes the ultimate responsibility for the system of quality control
 within the firm
 - Any person assigned the responsibility for quality (by the MP) shall have sufficient and appropriate experience, ability and authority to assume that responsibility

2. ETHICAL REQUIREMENT

These policies are developed to provide the firm with reasonable assurance that the firm and its personnel comply with the relevant ethical requirement

The policies shall require all staff and partners to comply with the fundamental principles of professional ethics which include:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behavior.

ETHICAL REQUIREMENT - Cntd

2.1 Independence

The documented policies shall require:

- Engagement partners to provide the firm with all relevant information about the client.
- Personnel to promptly notify the firm of circumstances and relationships that create threats to independence
- The firm to accumulate information on personnel so as to readily determine when they satisfy the independence requirement and how to deal with threats to independence
- At least annually, the firm to obtain written confirmations on compliance with the independence requirement from all personnel who are subject to this requirement
- The policies shall set out criteria determining the need for safeguard to reduce familiarity threat to an acceptable level when the same senior is used on the same engagement over a long period of time

For listed entities, partner rotation and involvement of EQCR

3. ACCEPTANCE AND CONTINUANCE OFCLIENT RELATIONSHIPS & SPECIFIC ENGAGEMENTS

- These policies are designed to provide the firm with reasonable assurance that it will only undertake or continue client relationships or engagements where:
 - It is competent
 - Can comply with ethical requirement
 - Has considered the integrity of the client and concluded that the client is of high integrity

These policies shall require:

- The client to collect relevant information before deciding on whether to accept a new engagement or continue an existing engagement
- If potential conflict of interest is identified, and the firm decides to accept or continue the engagement, for the firm to document how such issues were resolved
- For the firm to establish and document policies addressing circumstances where the firm obtains information that would have caused it to decline the engagement, had such information been obtained earlier.

4. HUMAN RESOURCES

- This policy is designed to provide the firm with reasonable assurance that it has personnel with the relevant competencies, capabilities and commitment to ethical principles to perform engagements in accordance with ISAs and relevant regulatory requirement
- And to enable the firm/partner issue the appropriate report.
- This policy should cover all aspects relating to HR:
- Eg; recruitment policy, induction, training, promotions, coaching, performance appraisals, compensation, reporting structure, career development, competence, estimation of personnel needse.t.c.

5. ENGAGEMENT PERFORMANCE

This policy is designed to provide the firm with reasonable assurance that engagements are performed in accordance with ISAs and the relevant regulatory framework

The policies and procedures should include:

- Supervision and review responsibilities
- Matters relevant to promoting quality
- Consultation
- EQCR- listed entities, criteria for others n eligibility of the reviewer, documentation/report
- Differences within the engagement team procedure, report not dated until matter concluded on, documentation of the resolution
- Retention of engagement documentation confidentiality, custody, accessibility & retrievability

These policies are designed to provide the firm with reasonable assurance that the firm's system of quality control is relevant, adequate and operating of the transfer of the control is relevant.

The policies shall require:

- Ongoing evaluation of the system, including inspection of at least one completed engagement for each partner
- Monitoring to be assigned to one partner or another person with the appropriate experience and authority to assume such a responsibility
- The engagement quality control reviewer is not involved in the process
- The firm to evaluate effects of the deficiencies notes
- The firm to communicate the deficiencies identified to the partners and personnel and recommendations for appropriate remedial action (at least annually)
- The firm to establish policies on cases where results of the monitoring indicate that the report issued by the firm may have been inappropriate

Monitoring - Cntd

- Complaints and allegations
- The firm shall establish policies to deal with complaints and allegations that;
 - The firm's work failed to comply with the regulatory requirement
 - Allegations of non-compliance with it's system of quality control

The firm shall establish policies and procedures requiring documentation of complaints and allegations and their responses to them

KEY AUDIT MATTERS – ISA 701

Definition: KAMs are those matters which in the auditor's professional judgement were most significant in the audit of financial statements of the current period

- These are meant to be communicated in the Auditor's report
- They are selected from the issues communicated to management
- KAMs are meant to enhance the communicative value of the Auditor's report
- The ISA applies to audits of listed entities and other circumstances where the auditor decides to communicate KAMs
- It applies to full audit of general purpose Financial statements
- It is not a substitute to expressing a modified opinion as per ISA 705

KEY AUDIT MATTERS – ISA 701 - Contd

How do you determine KAMs?

- High risk assessment
 - E.g. Items that pose a challenge in obtaining sufficient and appropriate audit evidence, or in forming an opinion on the financial statements
- In areas where engagement team's access to sufficient and appropriate audit evidence has been restricted. Eg. For related party and group audits.
- Areas of significant judgement where significant events or transactions occur during the period, increases its likelihood of being a KAM
- Matters that affect the overall audit strategy. EG, changes in the entities' accounting system, which affects the entity's revenue recognition
- Areas of significant management judgement and unusual transactions
- Management override of controls

Communicating KAMs

Include a title "Key audit matters" in the auditor's report For each KAM, include a description of:

- Why the matter was considered to be most significant
- How the matter was addressed in audit

The auditor should communicate with the management, the matters considered to be KAMs

QUESTIONS AND ANSWERS



THE END

THANK YOU