



ISQC 1 – A focus on SMPs

**The Audit Quality
Assurance Workshop**

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Contents

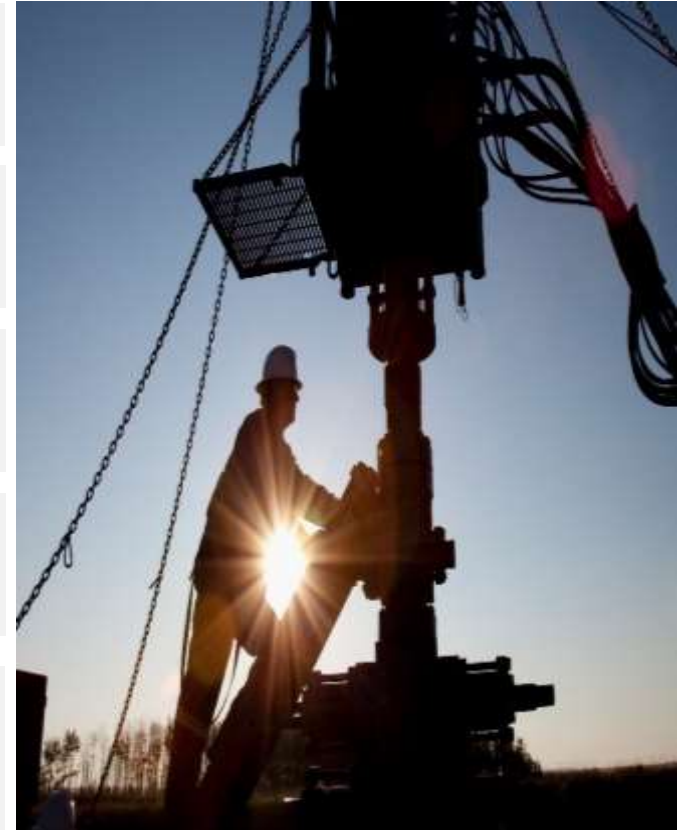
What is ISQC1

Elements of Quality Control

Developing and Implementing a Quality Assurance Policy

Documentation of the System of Quality Control

Challenges and Impediments of Implementing Quality Control, Solutions, and Benefits





What is ISQC 1

Delivering quality services and dealing with compliance issues are crucial features of the everyday running of a modern assurance/accountancy practice. It has always been important for firms to develop and implement good practices and procedures for quality control and to constantly monitor them to ensure that they are properly complied with and are regularly updated as and when required.

Revised International Standard on Quality Control 1 (ISQC 1) became effective on December 15, 2009.

Applicable for firms that perform audits and reviews of financial statements and other assurance and related service engagements.

Objective

To give a firm reasonable assurance that:

Firms and personnel comply with professional standards and applicable legal and regulatory requirements

Reports issued by the firm or engagement partners are appropriate in the circumstances.

(ISQC) 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.

Objective

A system of quality control consists of policies designed to achieve the following objectives: To give a firm reasonable assurance that:

1. Firms and personnel comply with professional standards and applicable legal and regulatory requirements
2. Reports issued by the firm or engagement partners are appropriate in the circumstances.

Applying and complying with relevant requirements

All staff should have an understanding of QC policies

Firm should comply with the policies unless the requirement is not relevant to particular services.

Where policy is not relevant, a firm may consider establishing additional policies and procedures in addition to those required by ISQC 1

The nature and extent of the policies and procedures developed by an individual firm to comply ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.

Personnel within the firm are responsible for establishing and maintaining and applying the firm's system of quality control.

The firm has to comply with each requirement of ISQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided - **Demonstration required of non-applicability**

1. Leadership responsibilities for quality within the firm.
2. Relevant ethical requirements.
3. Acceptance and continuance of client relationships and specific engagements.
4. Human resources.
5. Engagement performance.
6. Monitoring.
7. Documentation of policies and procedures.



Developing and Implementing a Quality Assurance Policy

The firm should establish policies and procedures designed to:

i. Promoting an internal culture of quality

- Clear, consistent and frequent actions from management
- Rewarding high quality work
- In-house trainings to communicate firm's guidance and tools

ii. Assigning operational responsibilities for the firms system of quality control to persons with:

- Appropriate experience
- Ability to identify, understand and develop QC issues

Ensure the fundamental principals of professional ethics are in place:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality;
- Professional behaviour; and
- Independence.
 - Rotation of partners
 - Confirmation of confidentiality for all partners and staff

Relevant ethical requirements (continued)

Firm should document safeguards to address threats to compliance with the fundamental principles.

Reinforcement of fundamental principles is by:

- Leadership of the firm
- Education & training
- Monitoring
- A process of dealing with non-compliance

“An ethical corporate culture is one in which the employees are empowered and expected to act in ethically responsible ways, even when the law does not require it.”

(DesJardins 2009)

Ensure a culture that ensures integrity and objectivity:

Integrity implies not merely honesty but also fair dealing and truthfulness.

Objectivity imposes an obligation on all professional accountants to be fair, intellectual, honest and free of conflict of interest, influence by others and bias.

In mind



and...

In appearance



Establish policies that check and monitor independence

Independence of mind - without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

Independence in appearance - avoidance of facts and circumstances that are so significant that a reasonable, knowledgeable third party would conclude that the firm/member of the engagement team is compromised.

Threats to independence

- Self-review threat
- Advocacy threat
- Familiarity threat
- Intimidation threat

Establish programmes that guarantee professional competence is obtained by obtaining the necessary:

- ✓ professional qualifications;
- ✓ practical experience; and
- ✓ continuous professional development

Acceptance and continuance of client relationships and specific engagements

Have policies that guide the go/no go decisions.

- Acceptance and continuance:
 - Competences
 - Resources
 - Ethical issues
 - Clients Integrity
- New client proposals
- Resignation of a client relationship

Establish sound HR policies that cover:

- Recruitment and retention
- Performance evaluation
- Capabilities
- Competence
- Career development
- Promotion
- Compensation and rewarding compliance
- Estimation of personnel needs

Ensure processes are documented on engagement performance and considers:

- Competence and ethical issues
- Role of the Engagement Partner
- Planning, supervision and review
- Consultation
- Differences of opinion
- Engagement quality control review (EQCR)

Establish policies on:

- Monitoring program
- Inspection procedures
- Report on the results of monitoring
- Evaluating, communicating, and remedying deficiencies
- Complaints and allegations

Ensure firm policies and procedures cover:

- Documentation of the firm's policies and procedures
- Documentation of the engagement
- Documentation of the engagement quality control review
- File access and retention

QC Policies link to Engagement Reviews

QC Policy	Engagement Review
Leadership responsibilities	<ul style="list-style-type: none"> • Completion & review • Acceptance/ continuance of client relationship • Opinions • Quality control reviewer
Ethical requirements	<ul style="list-style-type: none"> • Signing of annual and engagement independence and confidentiality forms

QC Policies link to Engagement Reviews (continued)

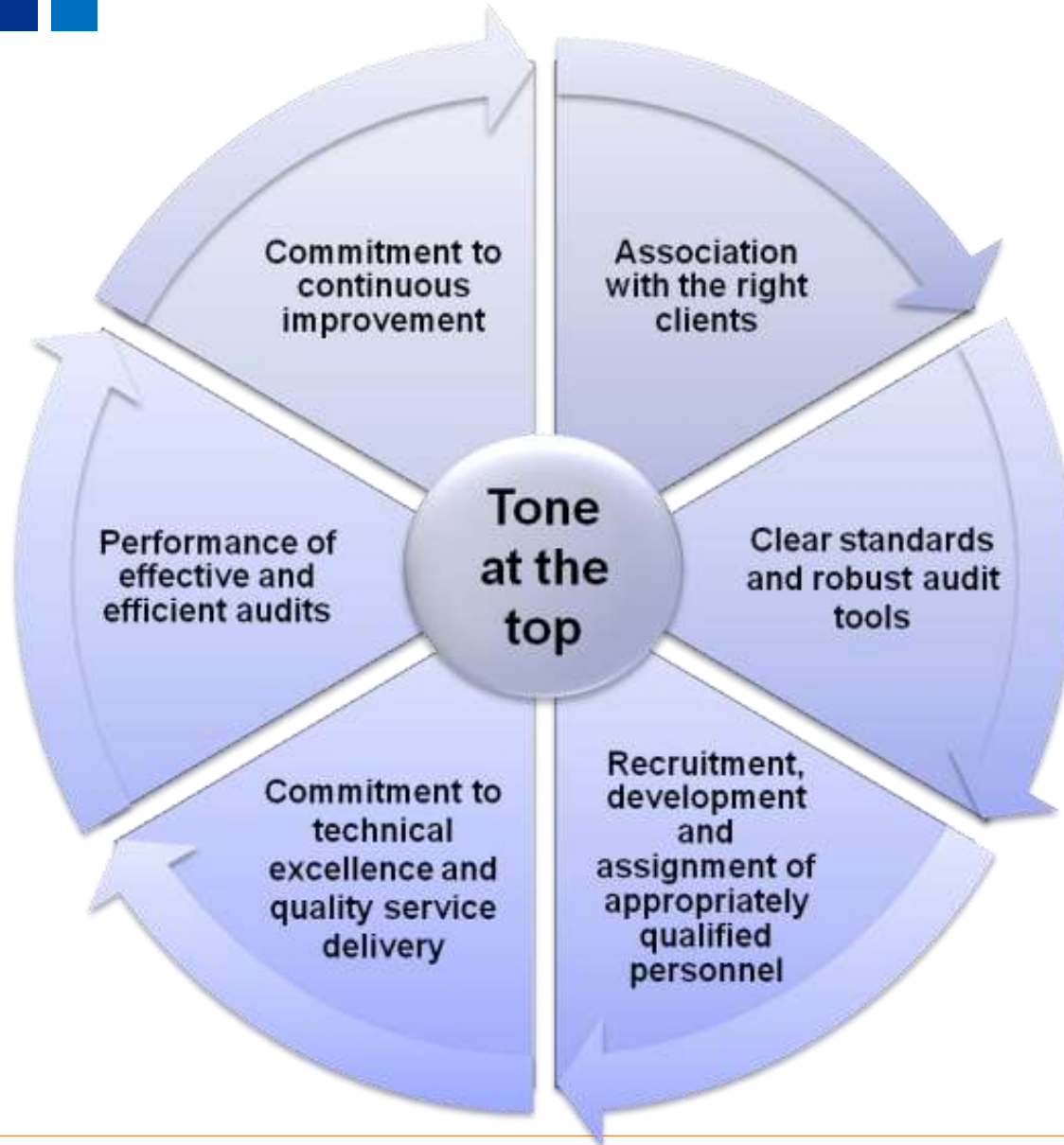
QC Policy	Engagement Review
Acceptance and continuance of client relationships	<ul style="list-style-type: none"> • Pre-engagement procedures
Human resource	<ul style="list-style-type: none"> • Assignment of engagement teams • Reporting
Engagement performance	<ul style="list-style-type: none"> • Team briefing • Documentation of work performed • Supervision • Consultations • EQR

QC Policies link to Engagement Reviews (continued)

QC Policy	Engagement Review
Monitoring	<ul style="list-style-type: none"> • Adherence to professional standards, legal and regulatory requirements. • Relevance of policies • Partners rotation
Documentation of the system of QC	<ul style="list-style-type: none"> • Reporting framework

1. Limited staff
 - ✓ Trapped between doing the job and growing business
2. Legal and social environment
 - ✓ Insufficient regulation or over-regulation
 - ✓ Potential lack of understanding of audit
3. Availability of resources
 - ✓ Financial
 - ✓ Guidance, manuals, procedures
4. Developing and designing processes from the scratch

Audit quality framework



- Professional judgment and skepticism.
- Direction, supervision and review.
- Ongoing mentoring and on the job coaching.
- Critical assessment of audit evidence.
- Appropriately supported and documented conclusions.
- Relationships built on mutual respect.
- Insightful, open and honest two way communications.

“Quality in a service or product is not what you put into it. It is what the client or customer gets out of it.” ~Peter Drucker

“Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives.” ~William A. Foster

The man who has won millions at
the cost of his conscience is a
failure.

BC Forbes





Thank you

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