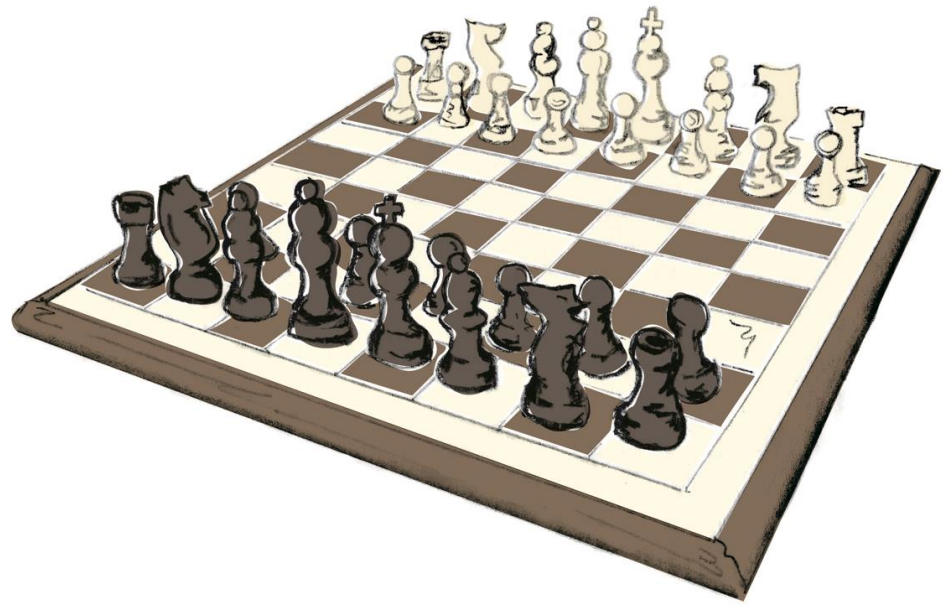


QUALITY CONTROL STANDARDS



CPA ALFRED LAGAT

1. You are in a cabin and it is pitch black. You have one match on you. Which do you light first, the newspaper, the lamp, the candle or the fire?
2. There is a room with no doors, no windows nothing and a man is hung from the ceiling and a puddle of water is on the floor. How did he die?
3. A lift is on the ground floor. There are 4 people in the lift including me. When the lift reaches 1st floor, 1 person gets out 3 people get in. The lift goes up to the 2nd floor 2 people get out 6 people get in. It then goes up to the next floor up, no one gets out but 12 people get in. Halfway up to the next floor up the lift cables snaps, it crashes to the floor. Everyone dies in the lift. How did I survive?

Quality Control Standards

Significant objective of IAASB is the **quality control**.

Quality control is fundamental to **high quality audit work**.

- **ISQC 1**- *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.*

Quality Control Standards

- **ISQC1 establishes a firm's responsibilities to set up and maintain a system of quality control for all audits, other assurance and related services agreements.**
- **The revised International Standard on Auditing (ISA 220) Quality Control for Audits of Historical Information, which establishes standards for the specific responsibilities of firm personnel for an individual audit engagement and is premised upon the requirements of the firm-wide quality control standards set out in ISQC 1.**

Quality Control Standards

Why focus on Quality Control Standards?

The quality control standards are designed:

- to help restore public confidence in auditing following the corporate financial scandals of prior years and**
- to ensure the highest level of quality in the delivery of other assurance services by professional accountants.**

International Standard on Quality Control (ISQC) 1

The **purpose of this International Standard** is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.

ISQC 1- Basic Points

- The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

What is ISQC1

- ISQC1 is an international standard on quality control
- It came into effect on 30 June 2005 with subsequent revisions
- ISQC1 establishes standards for quality at firm level



At the firm level:

- International Standards on Quality Control 1 (ISQC 1) – Quality Control for Firms That Perform Audits of Historical Financial information, and Other Assurance and Related Services Engagements.
- Firms needed to have their systems established by 15 December 09



At the Institute level:

Statement of Membership Obligations –
Issued April 2004-Revised 2006

Effective 15 December 2009



Statements of Membership Obligations (SMOs or Statements) provide clear benchmarks to current and potential IFAC members to assist them in ensuring high quality performance by professional accountants.



- SMO 1 – Quality Assurance
- SMO 2 - International Education Standards for Professional Accountants
- SMO 3 – International Standards related to Practice Statements and other papers issued by IAASB
- SMO 4 – IFAC Code of Ethics



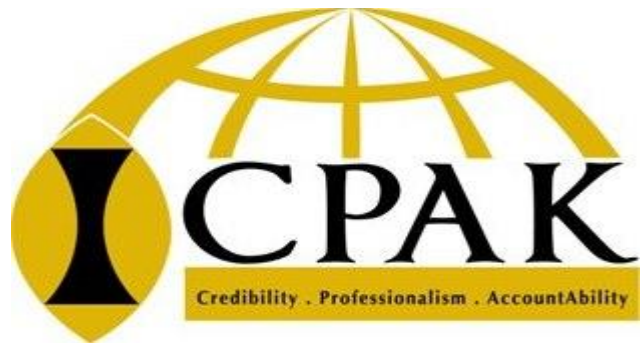
- SMO 5 – International Public Sector Accounting Standards (IPSAS) and other IPSASB guidance
- SMO 6 – Investigation and Discipline
- SMO 7 – International Financial Reporting Standards (IFRS)



Objectives of ISQC1

Establish **basic principles** and **essential procedures**, and to provide guidance regarding a firm's responsibilities for its system of quality control for

- ☐ Audits & reviews of historical financial information
- ☐ Other assurance & related services engagements



Objectives of a firm's system of quality control are

The firm should establish a system of quality control designed:

- to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and
- that reports issued by the firm or engagement partners are appropriate in the circumstances. A system of quality control comprises of policies designed to achieve these objectives and the procedures necessary to implement and monitor compliance with those policies.



Objectives of a firm's system of quality control contd-

- ❑ The **policies** designed to achieve the objectives set out above; and,
- ❑ The **procedures** necessary to implement and monitor compliance with those policies.

The Quality Control requirements apply to all firms.



Elements of a System of Quality Control

1. Leadership responsibilities for quality within the firm
2. Ethical requirements
3. Acceptance and continuance of clients relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring



The quality control procedures should be documented and communicated to the firm's personnel. Communication entails:

- ☐ Description of quality control Policies & Procedures
- ☐ Objectives that the Policies & Procedures are designed to achieve
- ☐ Specification of individual responsibility for quality and compliance with the Procedures & Procedures



1. Leadership responsibilities for Quality within the firm.
 - Requires the firm's chief executive officer (or equivalent) or firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control
 - Firm's culture should recognise & reward high quality work – concretised in Policies & Procedures addressing performance evaluation, compensation & promotion



Leadership responsibilities for Quality within the firm contd-.

- ❑ Commercial considerations should not override the quality of work performed-eg time spent
- ❑ Firm should devote sufficient resources for the development, documentation & support of the quality control Policies & Procedures



Leadership responsibilities for Quality within the firm contd-

Operational responsibility for the quality control system should be assigned to someone with sufficient & appropriate:

- ❑ **experience** and **ability** to identify, understand & develop Policies & Procedures;
- ❑ **authority** to implement the Policies & Procedures



2. Ethical Requirements

An Ethical practice is the foundation of long term success.

The firm and its personnel should comply with relevant ethical requirements.

The IFAC Code of Ethics establishes the fundamental principles of professional ethics.



2. Ethical Requirements contd-

For professional accountants the fundamental Ethical Principles (as per IFAC requirements) are:

- ☐ Independence
- ☐ Integrity
- ☐ Objectivity
- ☐ Professional competence and due care
- ☐ Confidentiality; and
- ☐ Professional behaviour



Ethical requirements - Independence

- ❑ The firm should establish policies and procedures designed to maintain independence per IFAC code and national ethical requirements, which enable it to:
 - ❖ Communicate its independence requirements to its personnel and other appropriate associates
 - ❖ Identify and evaluate circumstances and relationships that create threats to independence, and take appropriate action



Ethical requirements - Independence

Policies and procedures on **Independence** should require:

- Engagement partners to provide relevant information on client engagements and scope of services to the firm
 - ✓ Prepare a list of entities to which independence policies & procedures apply
 - ✓ Maintain the list up to date



Policies and procedures on Independence should require:

- ☐ Accumulation and communication of relevant information to appropriate personnel
 - ✓ Make the list available to staff
 - ✓ Notify staff of any changes
- ☐ Personnel to promptly notify the firm of any threat to independence



Ethical requirements – Independence Confirmations

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



Ethical requirements – Independence Confirmations

Staff should be required to confirm that:

- ☐ They are familiar with the policies & procedures
- ☐ Prohibited investments have not been held at any time during the relevant period
- ☐ Prohibited relationships do not exist
- ☐ Other prohibited transactions have not occurred



Ethical requirements – staff rotation

Set out criteria to ensure that independence is not compromised by using same senior personnel on assurance engagements over a long period of time.

For audits of listed entities, complying with requirements on partner rotation per IFAC Code or (a more restrictive) National Code.



- **Ethical requirements – Conflict of interest**

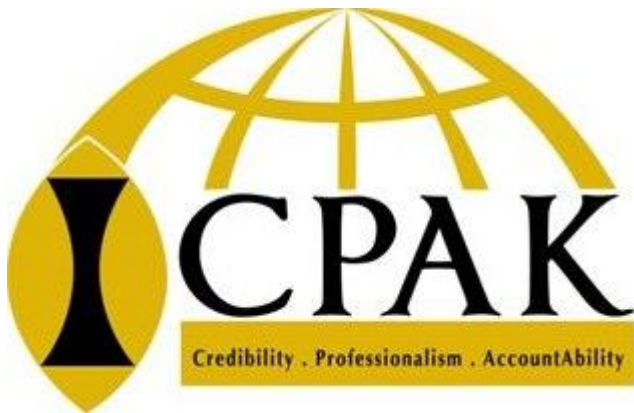
Conflicts of interest can arise in a number of ways:

e.g when a partner or staff member represents two clients (a buyer and a seller) to the same transaction or is assisting a client in hiring a senior person in the organization when the partner or staff is aware that their relative is a candidate for the position, or where a firm provides audit and accountancy services etc



Ethical requirements – Conflict of interest

- Partners and staff should be free of any interests, influences or relationships in respect of the client's affairs which may impair professional judgment or objectivity.
- The firm is responsible for development, implementation, compliance, enforcement and monitoring of practice methods and procedures to assist partners and staff deal with any conflict of interest situations.



Ethical Requirements – Confidentiality

All partners and staff must protect and keep confidential any client information that is meant to be kept confidential and protected according to governing laws, regulatory authorities, IFAC code, firm policy and specific client instructions and agreements.

Client and personal information should only be disclosed for the purpose that it was obtained for.

A firm must have a policy on the confidentiality requirement for its partners and staff.



3. Acceptance and continuance of client relationships and specific engagements

Policies and procedures to ensure that the firm will only undertake or continue relationships and engagements where it:

- ❖ Has considered the integrity of the client
- ❖ Is competent to perform the engagement and has the capabilities, time and resources-rule of life... Don't promise what you cant deliver
- ❖ Can comply with ethical requirements



Acceptance and continuance of client relationships and specific engagements contd

Matters to consider on Client's integrity:

- ☐ Identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance
- ☐ Nature of the client's operations including its business practices
- ☐ Aggressive concern to maintain low audit fees



Acceptance and continuance of client relationships:

Client's integrity – cont'd:

- ☐ Information on the attitude of principal owners and key management towards aggressive interpretation of accounting standards and the control environment
- ☐ Indications of an inappropriate limitation in the scope of work



Acceptance and continuance of client relationships:

Client's integrity – cont'd

- ☐ Indications of involvement in money laundering or other criminal activities
- ☐ Reasons for non-reappointment of previous firm



Acceptance and continuance of client relationships:

Sources of information include:-

- ☐ Communication with existing or previous providers of professional services
- ☐ Discussions with third parties such as bankers, legal counsel and industry peers
- ☐ Background searches of relevant databases



Acceptance and continuance of client relationships:

Assess the Firm's capabilities, competence, resources - Consider whether Firm's

- ☐ Personnel have knowledge of relevant industries
- ☐ Personnel have experience with relevant regulatory or reporting requirements or can acquire the skills & knowledge effectively
- ☐ Has sufficient personnel with the necessary capabilities and competence



Acceptance and continuance of client relationships:

Assess the Firm's capabilities, competence, resources - Consider whether Firm's

- ☐ Whether experts are available if needed
- ☐ Availability of an engagement quality control reviewer – who meets specified criteria & eligibility requirements
- ☐ Ability to complete assignment within the reporting deadline



Acceptance and continuance of client relationships and specific assignments:

- If accepting an engagement may give rise to actual or perceived conflict of interest, the Firm should consider whether it is appropriate to accept the engagement



4. Human resources

- The Firm should ensure it has sufficient personnel with the requisite **capabilities**, **competence**, and **commitment to ethical principles** to enable it to perform its engagements in accordance with professional standards and regulatory / legal requirements



Human Resources contd-

HR policies and procedures should address the following issues:

- ☐ Recruitment
- ☐ Performance evaluation and promotion
- ☐ Capabilities and competence
- ☐ Career development including promotion
- ☐ Compensation
- ☐ Estimation of personnel needs



Human Resources - Recruitment

The Firm should:

- ☐ Plan its personnel needs at all levels
- ☐ Establish quantified hiring objectives based on current clientele, anticipated growth & retirement etc
- ☐ Establish attributes for potential hires



Human resources – Recruitment ...

Attributes for potential hires may include:

- ☐ Intelligence, integrity, honesty, etc
- ☐ Academic background
- ☐ Experience, etc

The Firm should set guidelines on:

- ☐ Hiring of relatives
- ☐ Rehiring of former employees
- ☐ Hiring of Client personnel, etc



Human resources – Monitoring of Recruitment

The Firm should **Monitor** the effectiveness of the recruitment programmes for:

- ☐ Adherence with policies & procedures
- ☐ Results of hiring programmes to confirm whether the Firm's goals and needs are being achieved



Human Resource contd- Capabilities and competence are developed through:

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



human resource cont- Professional Development

The Firm should:

- ☐ Issue guidelines and requirements for CPE
- ☐ Develop appropriate in-house programs
- ☐ Provide an appropriate orientation program for new employees
- ☐ Monitor effectiveness of CPE programs
- ☐ Encourage membership of professional bodies / societies – including staff serving in relevant committees



Human Resource - Advancement

The Firm should

- ☐ Establish qualifications deemed necessary for various responsibility levels in the Firm
- ☐ Establish criteria for performance evaluation e.g.
Technical knowledge, analytical skills, leadership skills, client relations, etc.
- ☐ Evaluate performance and provide feedback



5. **Engagement Performance**

The firm should establish policies and procedures designed to ensure that

- ❑ Engagements are performed in accordance with professional standards and regulatory and legal requirements
- ❑ Appropriate audit reports are issued
- Σ Audit work should be assigned to personnel who have the degree of **technical training** and **proficiency** required in the circumstances



Engagement Performance contd-

This is accomplished through:

- Written or electronic manuals
- Software tools
- Other forms of standardised documentation
- Industry specific



Engagement Performance contd-

Matters that should be addressed include:

- How the engagement teams are briefed to obtain understanding of the objectives of their work



Engagement Performance contd-

Matters that should be addressed include:-

- Processes for complying with applicable engagement standards
- Processes of engagement supervision, staff training and coaching
- Methods of reviewing the work performed, the significant judgements made and the form of report being issued



Engagement Performance contd-

Matters that should be addressed include:

- Appropriate documentation of the work performed, and of the timing and extent of the review
- Processes to keep all policies and procedures current



Engagement Performance

Team selection, etc - the firm should

- ❑ Identify on a timely basis the staffing requirements of specific assignments
- ❑ Prepare budgets to determine manpower requirements & schedule audit work
- ❑ In allocating staff, consider continuity, development needs, rotation, etc
- ❑ Appoint someone to be responsible for assigning personnel to audits



Engagement Performance

Planning, Supervision & Review – the firm should:

Specify procedures, form and minimum contents of audit plans

- ❑ Develop sources of background information on client – prior period & permanent audit files, etc
- ❑ Develop guidance for the form and content of working papers



Engagement Performance

Planning, Supervision & Review – the firm should:

- ❑ Ensure appropriate supervision and monitoring at all levels and stages of the assignment
- ❑ Introduce standardised forms, checklists, questionnaires, etc
- ❑ Provide on-the-job training - including involving assistants in many areas/sections of the work



Engagement Performance contd-

Supervision includes:

- ❑ Tracking progress of engagement & considering:
 - ✓ capabilities and competencies of the engagement team
 - ✓ Whether sufficient time is allocated to project
 - ✓ Whether staff understand instructions and are complying with them



Engagement Performance contd- Supervision includes:-

- ☐ Addressing significant issues arising during the engagement
- ☐ Identifying matters for consultation or consideration by more experienced team members



Engagement Performance - Consultation

- ☐ Appropriate consultation should take place on difficult or contentious matters
- ☐ The nature / scope and conclusions of such consultations should be documented

Procedures

- ☐ Identify areas and specialised situations where consultation is required – due to say, the nature & complexity, emerging issues, etc



Engagement Performance contd- **Consultation – Procedures**

- ❑ Maintain & provide access to reference libraries, technical manuals, etc
- ❑ Designate specialists for particular industries, technical issues, etc

Differences on Opinion

Firm should establish mechanisms to resolve differences of opinion and, when required, involving the Partner & Quality Control Reviewer



Engagement Performance contd-

Criteria for deciding engagements for QCR

Quality control reviews should be completed before the audit report is issued in respect

of:

- ☐ All audits of financial statements of listed entities
- ☐ All engagements meeting the criteria established by the Firm



Engagement Performance contd-

Criteria for deciding engagements for QCR include:

- ☐ Nature of engagement, including extent to which it involves a matter of public interest
- ☐ Identification of unusual circumstances or risks
- ☐ Requirement of laws or regulations



6. Monitoring

- Involves an ongoing consideration and evaluation of the firm's system of quality control including periodic inspection of a selection of completed engagements, to provide reasonable assurance that the system of Quality Control remains **relevant**, **adequate** and **effective**



Monitoring – Responsibility

- The responsibility for the Firm's monitoring process should be entrusted to a partner or other persons with sufficient and appropriate experience and authority in the firm to assume responsibility



Documentation

- The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control



The Way Forward

Self review

- ✓ Firm should review itself and remedy deficiencies that can easily be identified
- ✓ Use of the checklists developed by ICPAK encouraged

For a sole practitioner to demonstrate compliance with Para 60 ISQC1, ensuring that his work is independently reviewed:

- ✓ Firms should establish working arrangements with other practitioners



Institute of Certified Public
Accountants of Kenya

End

Thank You

alagat@tullon.co.ke
www.tullon.co.ke