



# ICPAK AUDIT QUALITY ASSURANCE SEMINAR

## MT. KENYA REGION

Thursday, 23<sup>rd</sup> March 2017

*Presented by CPA Georgina Malombe*  
MANAGING PARTNER, GEMAL & COMPANY

# OUTLINE



Introduction



What is ISQC 1



Audit Quality Control



Developing, Documenting and Implementing a Quality Assurance Policy



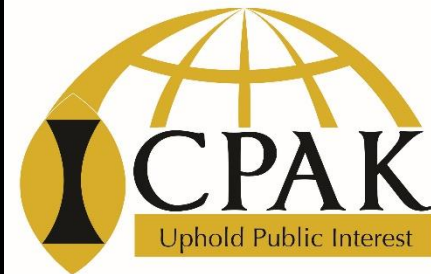
Challenges and Impediments of Implementing Quality Control, Solutions, and Benefits



Is ISQC 1 implementable in one man one staff firm

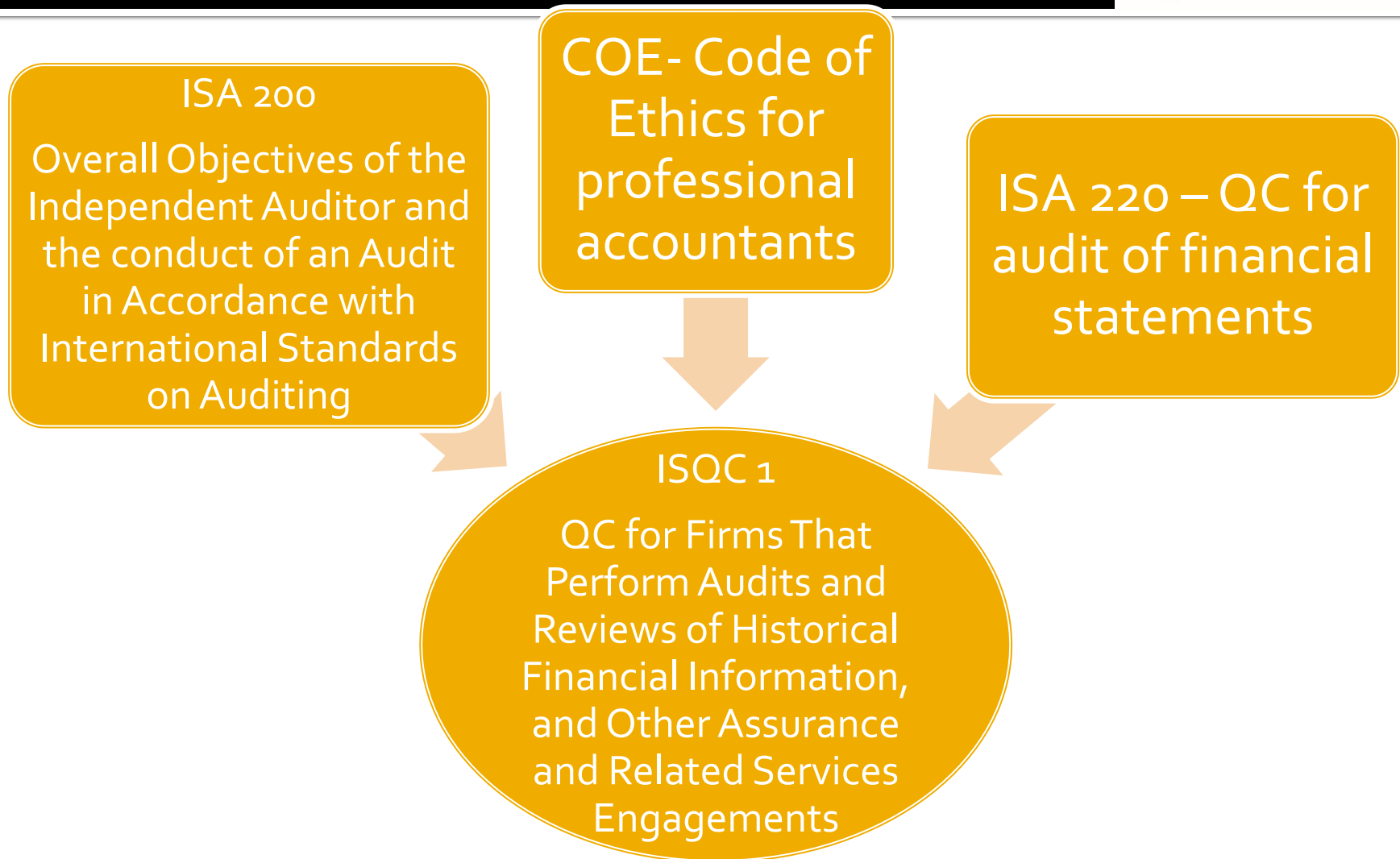


# Introduction

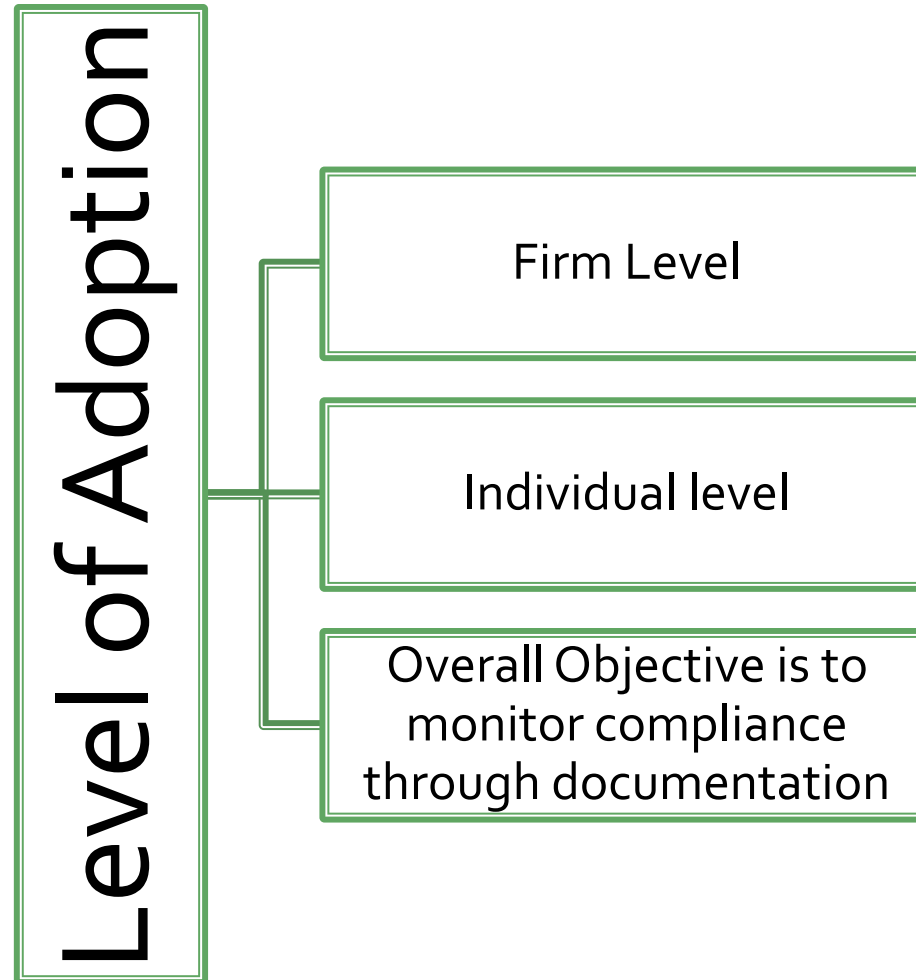
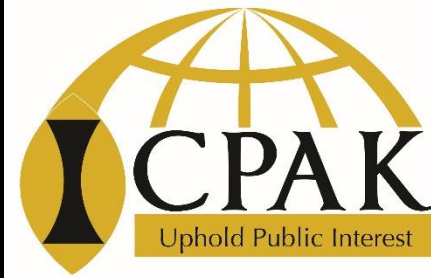


- When was ISQC 1 introduced?
- What purpose was it to serve?
- Has it been useful so far to firms?

# What is ISQC 1?



# AUDIT QUALITY CONTROL



# Principles & Purpose AQC



- Convergence of thoughts and uniformity for different audit stakeholders.
- Provide evidence of work done to support the audit opinion
- Significant matters must be documented
- Audit working papers should be reviewed. (Leadership)

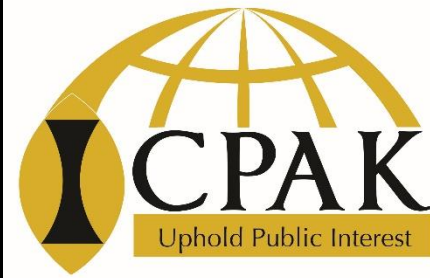
# Objective of ISQC 1

Remember

Establish a system of quality control designed to provide a firm 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 are some of legal & regulatory requirements that a firm needs to comply with?

# Elements of a system of QC

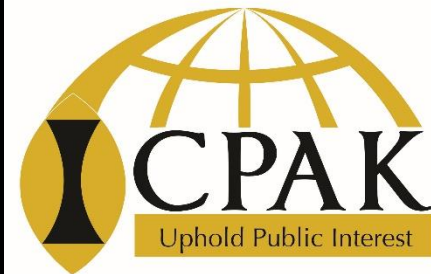




# Leadership: ISQC 1.18-19



# Relevant Ethical Requirements- ISQC 1. 20- 25



Integrity: Honesty but also fair dealing and truthfulness:

Objectivity: Fair, intellectual, honest and free of conflict of interest

Professional competence and due care: Necessary professional qualifications, practical experience

Confidentiality: Not to use such information for personal gain or advantage or for the advantage of a third party

Professional behaviour: Not do anything that will bring himself, the firm or the profession into disrepute.

Independence: **Independence of mind & Independence in appearance**

# Threats to Independence



## THREATS

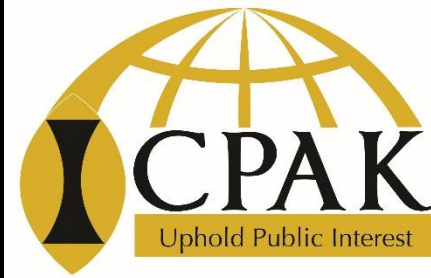
- Self-interest threat
- Self-review threat
- Familiarity threat
- Intimidation threat

## SAFEGUARDS

- Education and training.
- Adherence to continuing professional development requirements.
- Adherence to professional standards, and monitoring and disciplinary procedures.
- External review of the firm's quality control systems.
- Adherence to legislation governing the independence requirements of the firm

# Acceptance and Continuance of Client Relationships and Specific Engagements

## ISQC 1.26-28



- ❖ A firm should only accept or continue with, a client where:
  - ✓ It has considered the **integrity** of the client and does not have information that the client lacks integrity.
  - ✓ It is **competent** to perform the engagement and has the capabilities, including time and resources, to do so.
  - ✓ It can **comply with ethical requirements**, including appropriate independence from the client

# Acceptance and Continuance



# Human Resources

## ISQC 1.29-31



# Elements of Human Resource

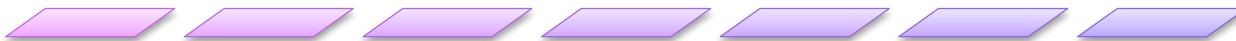
**Capabilities**



**Career development**



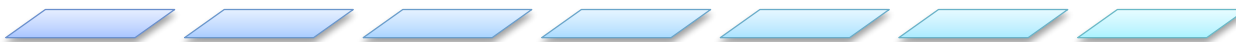
**Compensation**



**Performance evaluation**



**Competence**



**Promotion**



**Recruitment - The estimation of personnel needs**



# Engagement Performance

## ISQC 1.32-41, 43-44



Firms **MUST** produce a manual of standard engagement procedures and give all staff so that they know the standards they are working towards.

Ensuring good engagement performance involves a number of issues:

Direction	Supervision
Review	Consultation
Resolution of disputes/differences of opinion	Planning



# Engagement Performance: What must be documented.



- ❑ Discussion of significant matters with the engagement partner;
- ❑ Review of the financial statements or other subject matter information of the proposed report
- ❑ Review of selected engagement documentation relating to significant judgements the engagement team made and the conclusions it reached;
- ❑ Evaluation of the conclusions reached in formulating the report and considering whether the proposed report is appropriate.

# Engagement Performance: What must be documented.



## **For listed companies in particular the review should include:**

- ✓ The engagement team's evaluation of the firm's independence in relation to the specific engagement
- ✓ Significant risks identified during the engagement and the response to those risks
- ✓ Judgements made, particularly with respect to materiality and significant risks
- ✓ Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations
- ✓ The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- ✓ The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
- ✓ Whether documentation selected for review reflects the work performed in relation to the significant judgements and supports the conclusions reached.

# Monitoring ISQC 1. 48-56



The standard states that firms must have policies in place to ensure that their quality control procedures are:

- ✓ Relevant
- ✓ Adequate
- ✓ Operating effectively

## Ongoing Evaluation:

Has it kept up to date with regulatory requirements?

## Cyclical Inspection:

Usually fall over a period such as three years, in which time at least one engagement per engagement partner would be reviewed.

2 levels

# Can Monitoring be Done in small firm

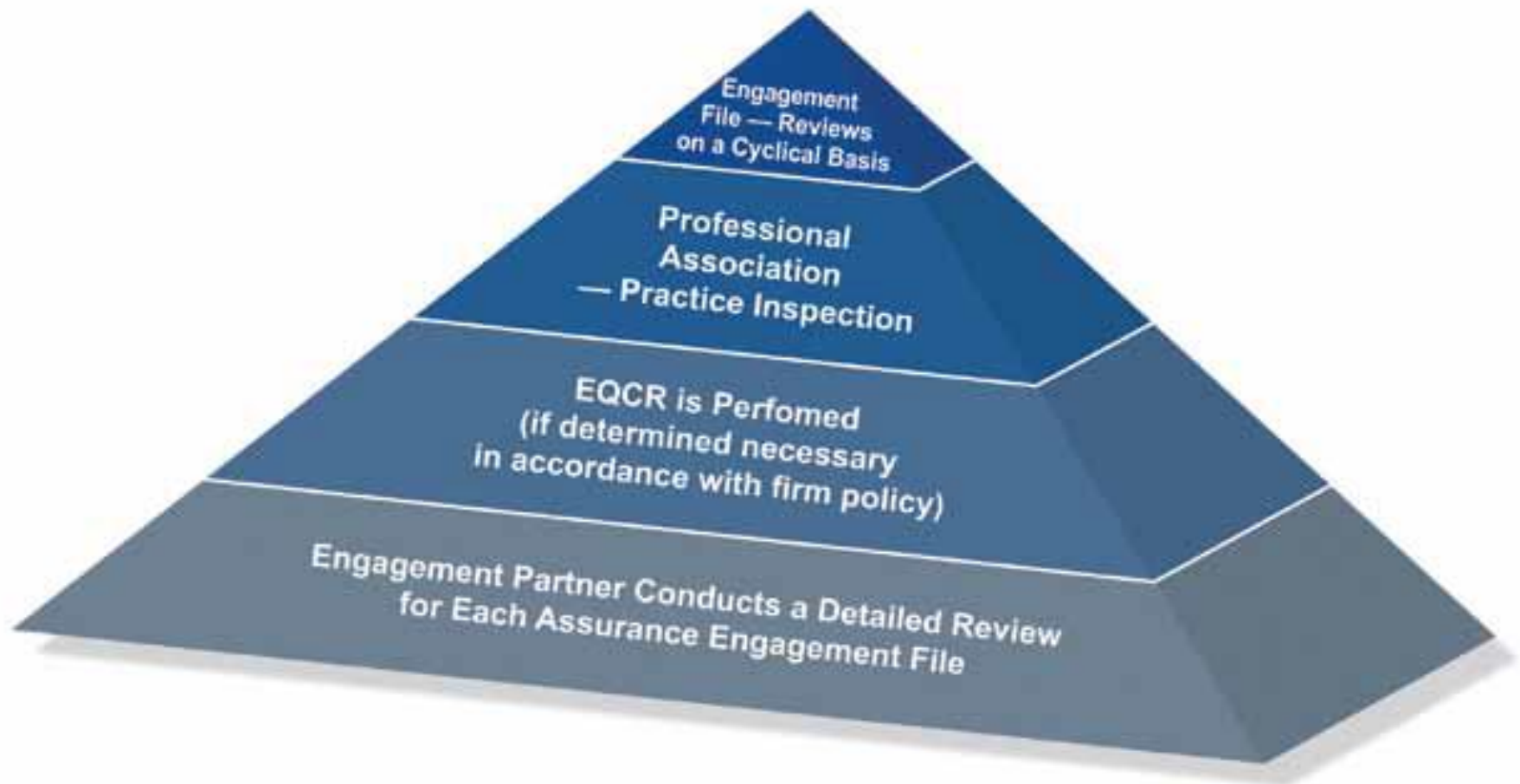


External professionals may serve in the capacity of monitor provided they are suitably qualified,


OR

The firm may opt to contract with another firm with whom they have an alliance.


# Monitoring pyramid




# Documentation- ISQC 1.42, 45-47, 57-59



✓ Documentations of the Engagement Quality Control Reviews



- Completion of the Assembly of Final Engagement Files



- Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

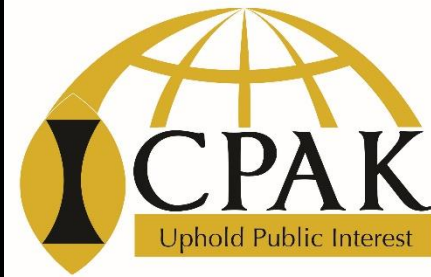


- Retention of Engagement Documentation



- Documentation of the system of Quality Control

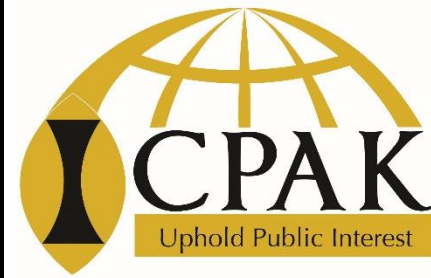
# Practical Application



Firms should Monitor and seek continuous improvement of the firm's system of quality control and carry out a periodic objective inspection of completed audit engagements

A practical Guide for Firms on implementing ISQC 1 recommends that firms take the following **key steps to give them confidence** that they are compliant with ISQC 1:

# Practical Application



Document the operation of the quality control system

✓ Deliver quality audits consulting when needed and meeting requirements for engagement quality control review

✓ Lead from the top giving a consistent message on the importance of quality control.

✓ Always act ethically in accordance with relevant standards and pronouncements

✓ Accept only those engagements where the firm is confident it can provide a service in compliance with requirements with particular emphasis on integrity and competence

✓ Recruit, develop and support capable and competent staff giving due attention to the firm's human resource policies and procedures



# Quality Control on an Individual Audit



## Direction:

Responsibilities, The objective of the work to be performed, The nature of the entity's business, Risk issues, Problems that may arise, Detailed approach to the audit engagement.

## Supervision:

Tracking the progress of the audit engagements, Considering the capabilities of individual members of the engagement team and that they understand their instructions, Addressing issues that arise and modifying the audit approach if appropriate, Identifying matters for consultation or consideration by more experienced members of the audit engagement

Review: Must be done by a senior person to ensure;

The work has been carried out in accordance with professional and regulatory requirements, Significant matters have been raised for further consideration, Appropriate consultations have taken place and have been documented, Where appropriate the planned audit work is revised

# CHALLENGES OF IMPLEMENTING ISQC1



OPEN DISCUSSION

# SCENARIOS!

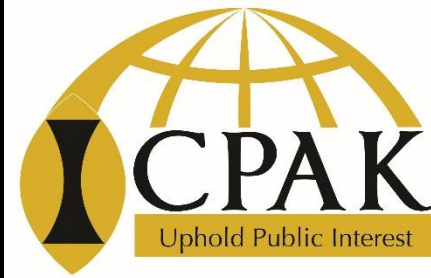


You are an audit senior working for the firm XYZ. You are currently carrying out the audit of ABC LTD, a manufacturer of waste paper bins. You are unhappy ABC's inventory valuation policy and have raised the issue several times with the audit manager. He has dealt with the client for a number of years and does not see what you are making a fuss about. He has refused to meet you on site to discuss these issues.

The former engagement partner to ABC LTD retired two months ago. As the audit manager had dealt with ABC LTD for many years, the other partners have decided to leave the audit of ABC LTD largely in his hands.

Comment on the situation.

# What is your view?



## **Engagement Partner**

An engagement partner is usually appointed to each audit engagement undertaken by the firm, to take responsibility for the engagement on behalf of the firm. Assigning the audit to the experienced audit manager is not sufficient.

The lack of audit engagement partner also means that several of the requirements of ISA 220 about ensuring that arrangements in relation to independence and directing, supervising and reviewing the audit are not in place.

# What is your view?



## Conflicting Views

In this scenario the audit manager and senior have conflicting views about the valuation of inventory. This does not appear to have been handled well, with the manager refusing to discuss the issue with the senior.

ISA 220 requires that the audit engagement partner takes responsibility for setting disputes in accordance with the firm's policy in respect of resolution of disputes required by ISQC 1. In this case, the lack of engagement partner may have contributed to this failure to resolve the disputes. In any event, at best, the failure to resolve the dispute is a breach of the firm's policy under ISQC 1. At worst, it indicates that the firm does not have a suitable policy concerning such disputes as required by ISQC.

Is ISQC 1 implementable in one man one staff firm ?



Partners Views

Vs

Employee views

