



PRACTICAL IMPLICATIONS of QUALITY CONTROL

Presentation by:

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Presentation agenda



- Quality control standards
- Setting up quality control in a practice
- Training and supervision of staff for quality assurance

Why quality control matters



- ❑ helps to ensure that a firm performs audits in accordance with the standards required by its professional body
- ❑ helps to maintain the reputation of the firm and the profession
- ❑ part of a firm's risk management process

Quality control standards



ISQC 1

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

Quality control standards (cont.)



ISA 220

- 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.

Key elements – ISQC1



- Leadership
- Ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance and monitoring.

Leadership



- ❑ Policies and procedures to promote an internal culture of quality in delivery of engagements
- ❑ Firm's CEO (or equivalent) to assume ultimate responsibility for the firm's system of quality control
- ❑ Firm must place quality above commercial considerations

Leadership (cont..)



- ❑ Firm's culture should recognise & reward high quality work
- ❑ Firm should devote sufficient resources for the development, documentation & support of the quality control Policies & Procedures
- ❑ IFAC Code - integrity, objectivity, professional competence and due care, confidentiality and professional behaviour

Ethical requirements



□ IFAC regulations:

- ✓ Independence,
- ✓ Integrity
- ✓ Objectivity,
- ✓ Professional competence and due care
- ✓ Confidentiality; and
- ✓ Professional behavior

Ethical requirements (cont..)



Independence

- ❑ Provide reasonable assurance that the firm, its personnel, others subject to independence requirements maintain independence per IFAC Code and ICPAK requirements
- ❑ Communicate its independence requirements to its personnel and other appropriate associates
- ❑ Personnel to promptly notify the firm of any threat to independence

Ethical requirements (cont..)



Independence - continued

- ❑ Identify and evaluate circumstances and relationships that create threats to independence, and take appropriate action
- ❑ Accumulation and communication of relevant information to help the firm determine independence

Ethical requirements (cont..)



Independence - continued

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 (cont..)



Independence - continued

- ❑ 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 (cont..)



Staff rotation

- ❑ Firm must have a 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 and ICPAK codes

Ethical requirements (cont..)



Conflict of interest

Examples include:

- ✓ Providing services to both a vendor and a purchaser in relation to the same transaction
- ✓ Relatives in financial reporting role
- ✓ Audit and accounting services
- ✓ Joint ventures

Ethical requirements (cont..)



Conflict of interest – continued

- ❑ 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 (cont..)



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.

Ethical requirements (cont..)



Confidentiality - continued

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

Client acceptance and continuance



- ❑ Policies and procedures on for the acceptance and continuation of client relationships and specific engagements.
- ❑ Reasonable assurance that for new clients and continuing relationships and engagements:
 - ✓ integrity of the client has been considered;
 - ✓ competency to perform the engagement;
 - ✓ capabilities, time and resources
 - ✓ can comply with ethical requirements.

Human resources



- ❑ sufficient personnel with:
 - ✓ capabilities
 - ✓ competence and
 - ✓ commitment to ethical principles

- ❑ How? - recruitment of appropriate staff, professional education and development, work experience, coaching and mentoring and disciplinary procedures.

Engagement performance



- ❑ Use of standardized documentation and processes addressing the following:
 - ✓ Briefing the engagement teams,
 - ✓ supervision and training,
 - ✓ reviewing work,
 - ✓ documentation,
 - ✓ processes to keep policies and procedures current,
- ❑ appropriate consultation takes place on difficult or contentious matters

Engagement performance (cont..)



- Engagements and engagements quality reviews that provides an objective evaluation of the significant judgements made by the team and the conclusions reached

Engagement policy control review



- ❑ Audits of financial statements of listed entities and public interest entities.

Monitoring



- ❑ Provide reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Includes:
 - ✓ Periodic inspection of completed engagements
 - ✓ one engagement for each partner over an inspection cycle of not more than 3 years

Monitoring (cont..)



- ❑ Small firms and sole practitioners - use suitably qualified external parties or share resources with other organisations.

- ❑ Remedial and disciplinary actions
 - ✓ improve training and professional development
 - ✓ Change policies if pervasive
 - ✓ Legal advice

Monitoring (cont..)



- ❑ Communicate the results of this monitoring of the quality control system to engagement partners and other appropriate individuals within the firm such as the CEO.

Key elements – ISA 220



- ❑ Leadership – by engagement partner
- ❑ Steps of quality control – by engagement partner
 - ✓ acceptance and continuance,
 - ✓ assignment of personnel,
 - ✓ direction
 - ✓ supervision,
 - ✓ review
 - ✓ consultation and engagement of quality control review

Key elements – ISA 220 (cont..)



- ❑ Engagement performance – Partner to team members:
 - ✓ responsibilities,
 - ✓ nature of the entities business,
 - ✓ risk related issues,
 - ✓ problems that may arise, and
 - ✓ the detailed approach to the performance of the audit

Key elements – ISA 220 (cont..)



□ Review

- ✓ More experienced team members review the work of less experienced team members
- ✓ The standard does not require that the partner reviews the entire audit file.

Summary



- ❑ ISQC 1 sets out the standards and guidelines relating to quality control that the firm should operate.
- ❑ ISA 220 then applies the firm-wide quality control procedures in the context of individual audits

Questions?



Ask
Answer
Who
Why
Where
What
When
Apply
Understand
Query
Question
Answers
Questions



Thank you

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