ISQC 1 - A PRACTICAL APPROACH

Presentation by:

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Uphold public interest

Agenda
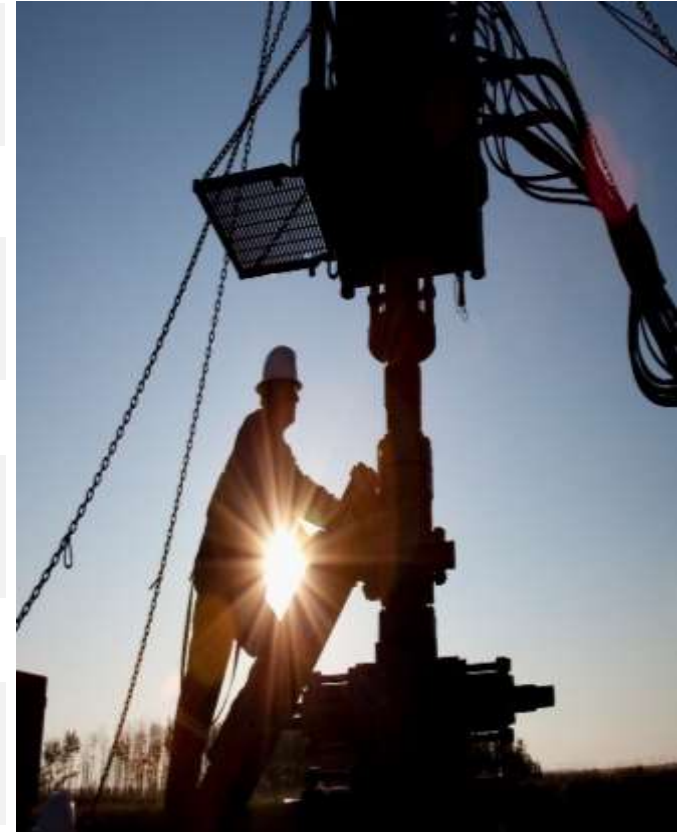
Introduction

❑ Delivering quality is a necessity in running of a modern assurance/ accountancy practice.

❑ Firms MUST develop and implement good practices and procedures for quality control

❑ There is great need to constantly monitor quality practices and programs to ensure compliance and regular updated as and when required.

Introduction

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

❑ Applicable for firms that provide assurance and related service engagements with objective to ensure 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.

Scope of ISQC 1

IFAC (IRBA) Code of Ethics and International Standard in Quality Control (ISQC 1)			
International Framework for Assurance Engagements			Related Services
Audits and Reviews of Historical Financial Information		Assurance Engagements other than Audits or Reviews of Historical Financial Information	
ISA International Standards on Auditing	**ISRE** International Standards on Review Engagements	**ISAE** International Standards on Assurance Engagements	**ISRS** International Standards on Related Services
Reasonable Assurance	Limited Assurance	Reasonable or Limited Assurance	No Assurance

Objectives of ISQC1

(ISQC) deals with a firm's responsibilities for its system of quality control for assurance and related services engagements. It applies to all firms that provide assurance and related services.

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.

Discuss the following

❑ Policies/systems that ensure quality in your firm

❑ Policies on acceptance of clients

❑ Staff development and specialisation

❑ What are the challenges in ensuring quality is achieved?

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_**.

Elements of a System of Quality Control

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.

The firm shall document its policies and procedures and communicate them to the firm's personnel.

Leadership responsibilities for quality within the firm

The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements.

Tone at the top

i. **Promoting an internal culture of quality**

❑ Training, rewarding high quality work, communicating actions and providing needed resources

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

❑ Appropriate experience, ability to identify, understand and develop QC issues

Relevant ethical requirements

The fundamental principals of professional ethics:

- Integrity;

- Objectivity;

- Professional competence and due care;

- Confidentiality;

- Professional behaviour; and

- Independence.

"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)

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.

Independence

Independence of mind that permits the provision of an opinion 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 which involves the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude that the firm's or a member of the engagement team's integrity, objectivity or professional scepticism have been compromised.

Threats to independence

❑ **Self-review threat -** marking own homework

❑ **Advocacy threat** - promotes or perceived to promote the client's position or opinion to the point that objectivity may be or perceived to be compromised.

❑ **Familiarity threat -** auditing a family member, former boss/employee etc.

❑ **Intimidation threat –** threats of replacement, pressure to reduce fees/scope etc.

Professional competence

Professional competence is obtained through obtaining the necessary professional <u>qualifications</u>, <u>practical experience</u> and through <u>continuous professional development</u> which includes keeping abreast of developments in the accountancy profession.

Acceptance and continuance of client relationships and specific engagements

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

Human Resources

- Recruitment and retention

- Performance evaluation

- Capabilities

- Competence

- Career development

- Promotion

- Compensation and rewarding compliance

- Estimation of personnel needs

Engagement performance

- Competence & ethical issues

- Role of the Engagement Partner

- Planning, supervision and review

- Consultation

- Differences of opinion

- Engagement quality control review (EQCR)

Monitoring

- Monitoring program

- Inspection procedures

- Report on the results of monitoring

- Evaluating, communicating, and remedying deficiencies

- Complaints and allegations

Documentation

- 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	• Acceptance/ continuance of client relationship • Reviews and Opinions • Quality control reviewer
Ethical requirements	• 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	• Pre-engagement procedures
Human resource	• Assignment of engagement teams • Performance reviews • Staff development programs
Engagement performance	• Team briefing • Documentation of work performed • Supervision & EQCR • Consultations

QC Policies link to Engagement Reviews (continued)

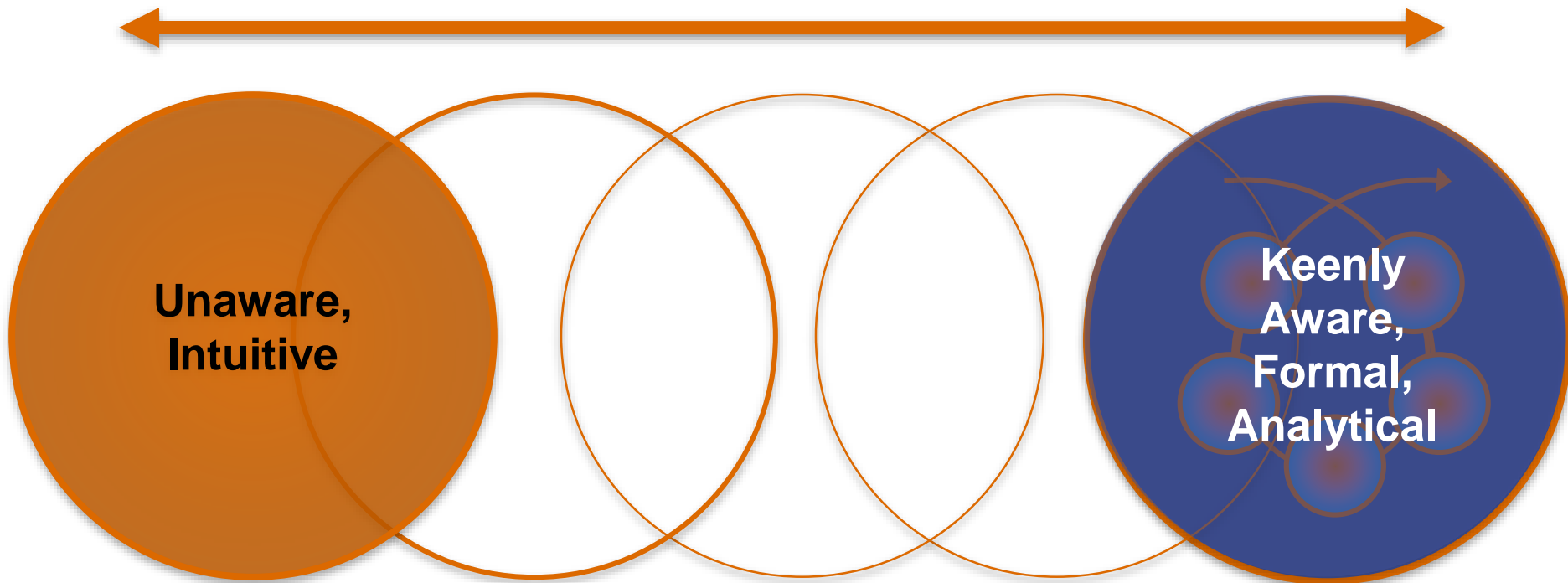| QC Policy	Engagement Review
Monitoring	• Adherence to professional standards, legal and regulatory requirements. • Relevance of policies • Partners rotation
Documentation of the system of QC	• Reporting framework

Critical thinking process
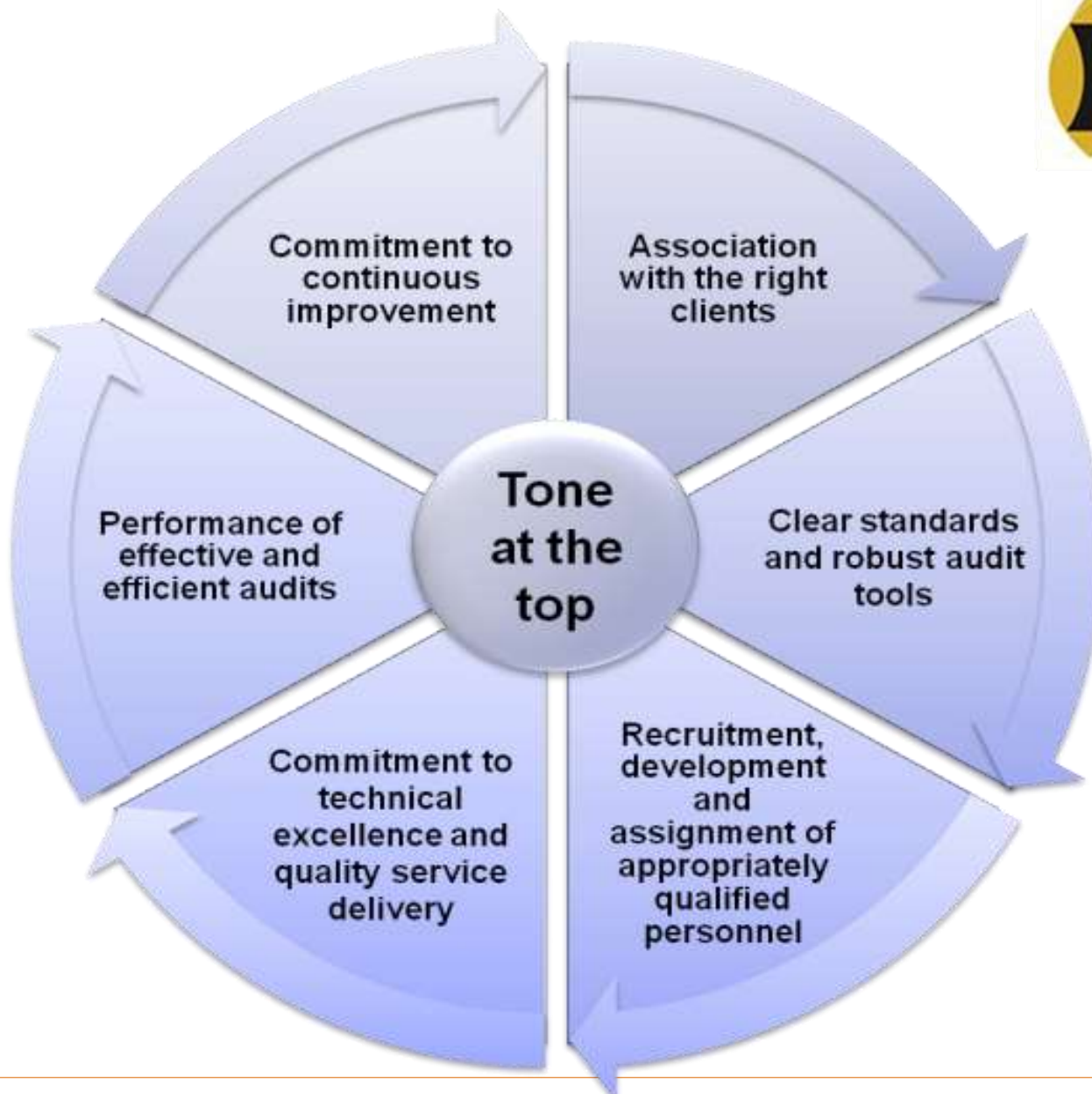
A Continuum of professional judgment

Audit quality framework

Conclusion

"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

Interactive Session