



# ICPAK AUDIT QUALITY ASSURANCE SEMINAR

MT. KENYA REGION

Thursday, 15<sup>th</sup> March 2018

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MANAGING PARTNER: GEMAL & COMPANY

# OUTLINE



Introduction

Audit Quality Control

Developing, Documenting and  
Implementing a Quality Assurance Policy -  
Guidelines

Challenges and Impediments of Implementing  
Quality Control, Practical Solutions

# Introduction



- Audit quality always has been critical and, most recently since 2013, audit quality indicators (AQIs) have been under much scrutiny.
- Lawmakers, regulators, issuers, financial statement users, and others have called for the development of publicly available indicators of audit quality.
- The future of AQIs was use by regulators as part of their quality assessment process and to inform standard setters about challenges or deficiencies in current audit approaches revealed by monitoring AQIs over time (*PCAOB 2013- Public company Accounting Oversight Board created by Sarbanes Oxley Act of 2002*).

## ■ Introduction....

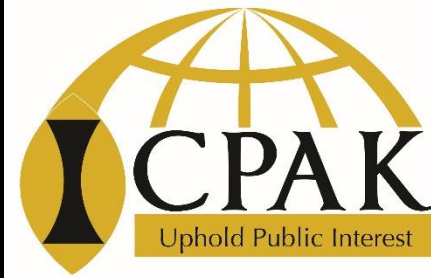
### STAKEHOLDERS' PERSPECTIVES ON AQIs



- Five primary groups of stakeholders in the audit process.



# STAKEHOLDERS' PERSPECTIVES ON AQIs



<b>Audit Firms</b>	Audit quality, from a firm's perspective, is managed as a continuous process that identifies important matters that affect audit performance, analyzes conditions, formulates responses, and monitors as well as reinforces performance.
Audit Committees	Focus primarily on financial reporting risks, identification of significant accounting policies and judgments, and how the auditor is addressing those issues.
Audit Regulators	What evidence should be used, how to use that evidence to assess quality, how to validate the linkage between evidence and audit quality) apply to the regulator's role. Academic research is fairly limited in contributing to these issues because of data limitations
Investors & Creditors	Investors have a limited understanding of the audit process and the role of the financial statement audit and therefore they rely on output measures to assess audit quality.
Preparers Management	Assuring high-quality financial reporting and that audits are conducted as efficiently and unobtrusively as possible

# PWC – AQA Investment Perspective



- [https://www.youtube.com/watch?v=dAme7o  
cn2GM](https://www.youtube.com/watch?v=dAme7o<br/>cn2GM)

# Foundational Framework of ISQC

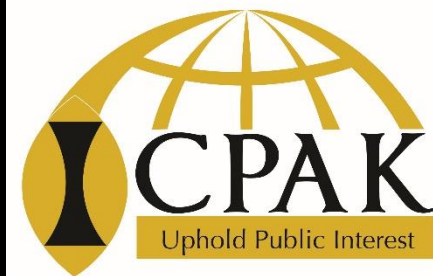


COE- Code  
of Ethics for  
professional  
accountants

ISA 220 – QC  
for audit of  
financial  
statements

ISQC 1  
QC for Firms That Perform Audits  
and Reviews of Historical Financial  
Information, and Other Assurance  
and Related Services Engagements

# Which Engagements Qualify

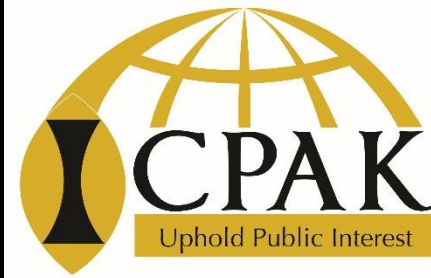


## IFAC (IRBA) Code of Ethics and International Standard in Quality Control (ISQC 1)

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	
Reasonable Assurance	Limited Assurance	Reasonable or Limited Assurance	No Assurance



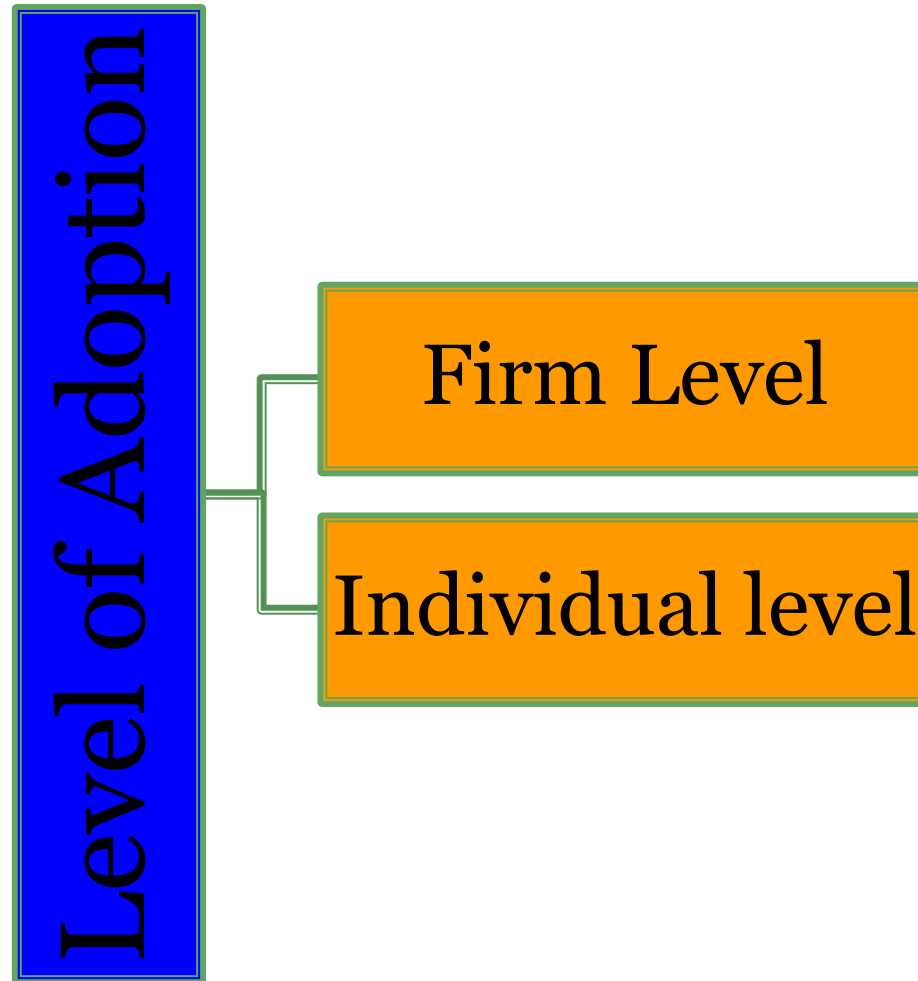
# Objectives of ISQC 1



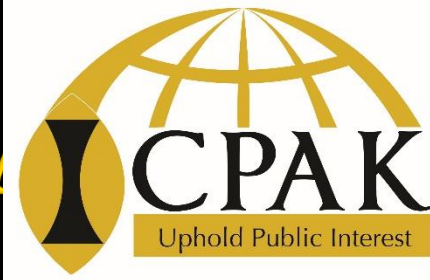
To give a firm some reasonable assurance that:

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

# AUDIT QUALITY CONTROL



# Principles & Purpose



- 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)

# Principles & Purpose AQC

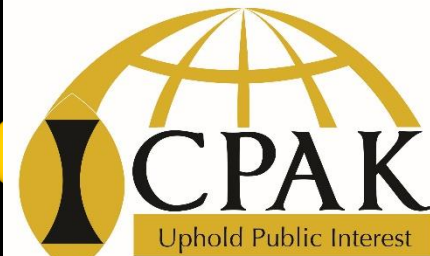


## Audit quality framework



Tone at the top

# Elements of a system of Q



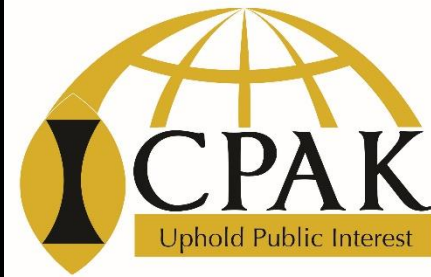
	Element	Purpose
<b>1</b>	Leadership Responsibilities for Quality Within the Firm	To describe the firm's responsibilities to promote an internal culture focused on quality control
<b>2</b>	Relevant Ethical Requirements	To provide guidance on the fundamental principles which define professional ethics
<b>3</b>	Acceptance and Continuance of Client Relationships and Specific Engagements	To provide guidance on the establishment of appropriate acceptance and continuance policies and procedures
<b>4</b>	Human Resources	To provide guidance on the human resource components of effective quality control policies and procedures

# Elements of a system of QC



	Element	Purpose
5	Engagement Performance	To provide guidance on the elements involved in engagement performance, highlighting the role of the engagement partner, planning, supervision and review, consultation, resolution of differences of opinion, and performance of engagement quality control review
6	Monitoring	To provide guidance on the monitoring of the firm's policies and procedures relating to the system of quality control, including the firm's monitoring program, inspection procedures, the monitor's report, addressing and removing deficiencies, and responding to complaints and allegations
7	Documentation	To provide guidance on the firm's requirements for documentation, both at the engagement level (including engagement quality control review) and for the firm's system of quality control

# 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 to do anything that will bring the partner/ employees /firm or the profession into disrepute.

Independence: Independence of mind & Independence in appearance



# Consultation & Ethical Dilemma

## Critical thinking process

**LEARN/UNLEARN**



# Acceptance and Continuance of Client Relationships and Specific Engagements

## ISQC 1.26-28



A firm should only accept or continue with, a client where:

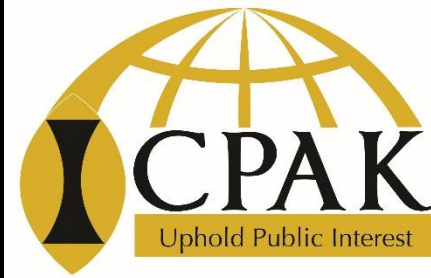
- ✓ It has considered the **integrity** of the client and does not have information that the client lacks integrity.
- ✓ It is **competent** to perform the engagement and has the capabilities, including time and resources, to do so.
- ✓ It can **comply with ethical requirements**, including appropriate independence from the client

# Acceptance and Continuance



# Human Resources

## ISQC 1.29-31



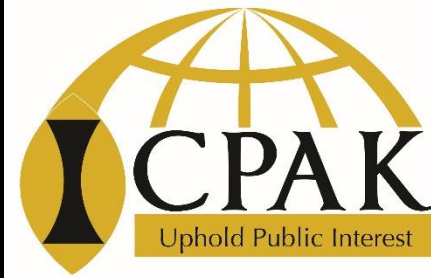
Excellent  
Staffing

Competence

Commitment to  
ethical principles

Capabilities

# Elements of Human Resource-Documentation Guidelines



## Capabilities



## Career development



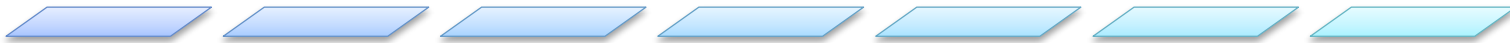
## Compensation



## Performance evaluation



## Competence



## Promotion



## Recruitment - The estimation of personnel needs



# Engagement Performance

## ISQC 1.32-41, 43-44



Firms **MUST** develop 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

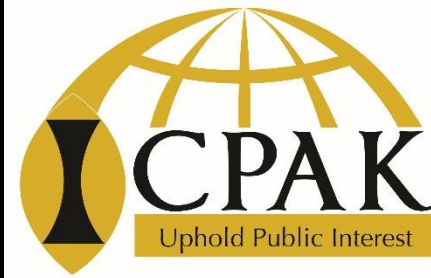
# Engagement Performance: What must be documented.



- ❑ 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.



# 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?

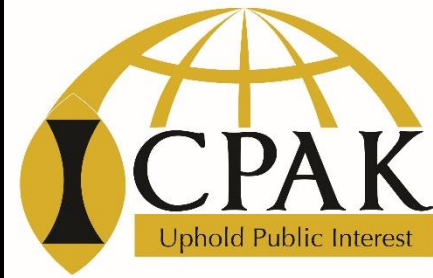
2 levels

## **Cyclical Inspection:**

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



# 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

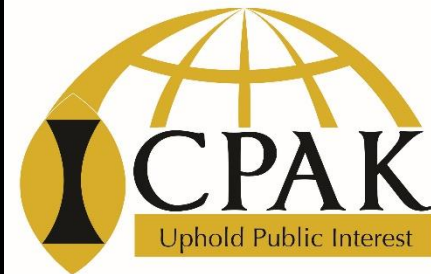


- Retention of Engagement Documentation



- Documentation of the system of Quality Control

# Challenges Facing Small Firms



## 1. Limited staff

- Trapped between doing the job and growing business

## 2. Legal and social environment

- Insufficient regulation or over-regulation
- Lack of understanding of audit

## 3. Availability of resources

- Financial
- Guidance, manuals, procedures

## *4. Developing and designing processes from the scratch*

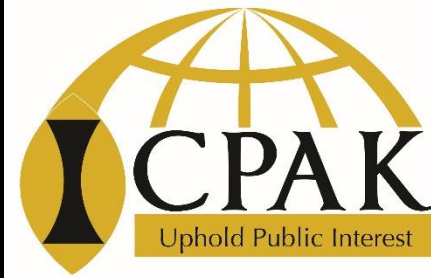
# What are the Practical Solutions to the Challenges?



## □ Reflection!

1. What can/not work? Attitude!
2. When can it work?
3. Which method can be used to make it work?
4. How can it work?

# 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

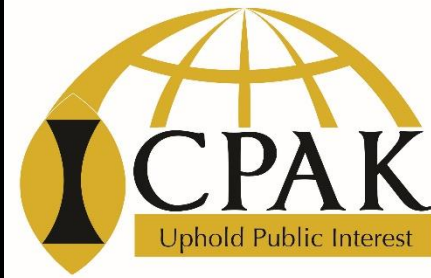
✓ Recruit, develop and support capable and competent staff giving due attention to the firm's human resource policies and procedures

# Helpful Hint!



Gather all partners and staff together for a strategic session. Together define the mission statement and firm goals. Determine how these can reasonably be accomplished. Examine the organizational chart to ensure that the current structure can support the firm objectives.

# Summary of Quality Control in Audit.



- <https://www.youtube.com/watch?v=WAM6YdIRyGY>



