

BRANCH AUDIT QUALITY ASSURANCE WORKSHOP-WESTERN



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Topic: Leadership Responsibility for Quality



Presentation

- **Introduction**
- **Role of Engaging Partner**
- **Assignment of Engagement Teams**
- **Challenges unique to SMPs in relation to quality**
- **Question & Answer**

QUALITY CONTROL ISA 220

☐ Scope of ISA 220

- ☐ “This standard deals with specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements
- ☐ It also addresses where applicable, the responsibilities of engagement quality control reviewer.
- ☐ This ISA is to be read in conjunction with relevant ethical requirements”



QUALITY CONTROL ISA 220

System of Quality Control

- ❑ “Quality control systems, policies and procedures are the responsibility of the audit firm.
- ❑ Under ISQC, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
 - ❑ (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
 - ❑ (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.
- ❑ This ISA is premised on the basis that the firm is subject to ISQC 1 or to national requirements that are at least as demanding.”



OBJECTIVE

- ❑ The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:
 - a) The audit complies with professional standards and applicable legal and regulatory requirements; and
 - b) The auditor's report issued is appropriate in the circumstances.



QUALITY CONTROL ISA 220

- ❑ ISA 220 should be read in conjunction of ISA200 “Overall objectives of the Independent Auditor and the conduct of an audit in Accordance with International Standards on Auditing”.
- ❑ The responsibilities for quality to all audit engagements that are conducted in accordance with ISAs, and ISQC1 rests with the engagement partner (par 8 ISA 220).
- ❑ ISA 220 establishes requirements for the engagement partner that are designed to facilitate a quality audit, including, among others, requirements for;



QUALITY CONTROL ISA 220



- Taking responsibility for the overall quality on each audit engagement to which that engagement partner is assigned
- Being certified that appropriate procedures regarding the acceptance and continuance of client relationships have been followed and determining that conclusions reached in this regard are appropriate.
- Taking responsibility for
 - (i) the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - (ii) the auditor's report being appropriate in the circumstances



QUALITY CONTROL ISA 220



- Taking responsibility for reviews being performed in accordance with the firm's review policies and procedures
- Being satisfied, through a review of the audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.



RELEVANT ETHICAL REQUIREMENTS

- Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.
- If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.



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INDEPENDENCE

- ❑ The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:
 - ❑ (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - ❑ (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
 - ❑ (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.



ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND AUDIT ENGAGEMENTS

- ❑ The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate.
- ❑ If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.



ASSIGNMENT OF ENGAGEMENT TEAMS

- ❑ The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:
 - ❑ (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
 - ❑ (b) Enable an auditor's report that is appropriate in the circumstances to be issued.



ENGAGEMENT PERFORMANCE

Direction, Supervision and Performance

- ❑ The engagement partner shall take responsibility for:
 - ❑ (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and
 - ❑ (b) The auditor's report being appropriate in the circumstances.

Reviews

- ❑ The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.
- ❑ On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.



ENGAGEMENT PERFORMANCE

Consultation

- ❑ The engagement partner shall:
 - ❑ (a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
 - ❑ (b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
 - ❑ (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
 - ❑ Determine that conclusions resulting from such consultations have been implemented.



ENGAGEMENT QUALITY CONTROL REVIEW

- ❑ For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
 - ❑ (a) Determine that an engagement quality control reviewer has been appointed;
 - ❑ (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - ❑ (c) Not date the auditor's report until the completion of the engagement quality control review.



ENGAGEMENT QUALITY CONTROL REVIEW

- ❑ The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
 - ❑ (a) Discussion of significant matters with the engagement partner;
 - ❑ (b) Review of the financial statements and the proposed auditor's report;
 - ❑ (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
 - ❑ (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate



ENGAGEMENT QUALITY CONTROL REVIEW

- ❑ For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
 - ❑ (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
 - ❑ (b) 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; and
 - ❑ (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

Differences of Opinion

- ❑ If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.



MONITORING

- ❑ An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.
- ❑ The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement



DOCUMENTATION

- ❑ The auditor shall include in the audit documentation:
 - ❑ (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
 - ❑ (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
 - ❑ (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
 - ❑ (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.
- ❑ The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
 - ❑ (a) The procedures required by the firm's policies on engagement quality control review have been performed;
 - ❑ (b) The engagement quality control review has been completed on or before the date of the auditor's report; and
 - ❑ (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.



DOCUMENTATION

- ❑ The auditor shall include in the audit documentation:
 - ❑ (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
 - ❑ (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
 - ❑ (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
 - ❑ (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.
- ❑ The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
 - ❑ (a) The procedures required by the firm's policies on engagement quality control review have been performed;
 - ❑ (b) The engagement quality control review has been completed on or before the date of the auditor's report; and
 - ❑ (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.



APPLICATION AND OTHER EXPLANATORY MATERIAL

SYSTEM OF QUALITY CONTROL AND ROLE OF ENGAGEMENT TEAMS

REMEMBER

- ☐ The system of quality control includes policies and procedures that address each of the following elements:
 - ☐ Leadership responsibilities for quality within the firm; •
Relevant ethical requirements;
 - ☐ Acceptance and continuance of client relationships and specific engagements;
 - ☐ Human resources;
 - ☐ Engagement performance; and
 - ☐ Monitoring.



RELIANCE ON THE FIRM'S SYSTEM OF QUALITY CONTROL

REMEMBER

- ❑ Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:
 - ❑ • Competence of personnel through their recruitment and formal training.
 - ❑ • Independence through the accumulation and communication of relevant independence information.
 - ❑ • Maintenance of client relationships through acceptance and continuance systems.
 - ❑ • Adherence to applicable legal and regulatory requirements through the monitoring process.



LEADERSHIP RESPONSIBILITIES FOR QUALITY ON AUDITS

REMEMBER

- ❑ The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:
 - ❑ (a) The importance to audit quality of:
 - i. Performing work that complies with professional standards and applicable legal and regulatory requirements;
 - ii. Complying with the firm's quality control policies and procedures as applicable;
 - iii. Issuing auditor's reports that are appropriate in the circumstances; and
 - iv. The engagement team's ability to raise concerns without fear of reprisals; and
 - ❑ (b) The fact that quality is essential in performing audit engagements.



RELEVANT ETHICAL REQUIREMENTS

Compliance with Relevant Ethical Requirements

- ❑ The IESBA (*International Ethics Standards Board for Accountants*) Code establishes the fundamental principles of professional ethics, which include:
 - ❑ (a) Integrity;
 - ❑ (b) Objectivity;
 - ❑ (c) Professional competence and due care;
 - ❑ (d) Confidentiality; and
 - ❑ (e) Professional behaviour.



ENGAGEMENT PERFORMANCE

Direction, Supervision and Performance

- ❑ Direction of the engagement team involves informing the members of the engagement team of matters such as: •
 - ❑ Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism as required by ISA 200.
 - ❑ Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
 - ❑ The objectives of the work to be performed.
 - ❑ The nature of the entity's business.
 - ❑ Risk-related issues.
 - ❑ Problems that may arise.
 - ❑ The detailed approach to the performance of the engagement.
- ❑ Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team.



ENGAGEMENT PERFORMANCE

Direction, Supervision and Performance

- ❑ Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.
- ❑ Supervision includes matters such as:
 - ❑ Tracking the progress of the audit engagement.
 - ❑ Considering the competence and capabilities of individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the audit engagement.
 - ❑ Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.
 - ❑ Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.



ENGAGEMENT PERFORMANCE

Direction, Supervision and Performance

- ❑ Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that work of less experienced team members is reviewed by more experienced team members.
- ❑ A review consists of consideration whether, for example:
 - ❑ The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
 - ❑ Significant matters have been raised for further consideration;
 - ❑ Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - ❑ There is a need to revise the nature, timing and extent of work performed;
 - ❑ The work performed supports the conclusions reached and is appropriately documented;
 - ❑ The evidence obtained is sufficient and appropriate to support the auditor's report; and
 - ❑ The objectives of the engagement procedures have been achieved



ENGAGEMENT PERFORMANCE

Direction, Supervision and Performance

- ❑ Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report:
 - ❑ Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement;
 - ❑ Significant risks; and
 - ❑ Other areas the engagement partner considers important.
- ❑ The engagement partner need not review all audit documentation, but may do so.
- ❑ However, as required by ISA 230, the partner documents the extent and timing of the reviews.
- ❑ An engagement partner taking over an audit during the engagement may apply the review procedures as described in paragraph A18 of the ISA 220 to review the work performed to the date of a change in order to assume the responsibilities of an engagement partner.



ENGAGEMENT PERFORMANCE

Direction, Supervision and Performance

- ❑ ISQC 1 requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.
- ❑ In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that audit.
- ❑ A deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate.



CHALLENGES UNIQUE TO SMPS IN RELATION TO QUALITY

- ❑ Staff quality-Recruitment/Retention
- ❑ Time/Fees vs. costs
- ❑ Limitation of partners
- ❑ Technology challenges
- ❑ Infrastructure
- ❑ The big 5 mentality/Trust/Goodwill from public



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