



Quality Control for SMPs – ISQC 1

Practitioners' Induction Workshop

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INTRODUCTION



Delivering quality services and dealing with **compliance issues** are crucial features of the everyday running of a modern assurance/accountancy practice. It has always been important for firms to develop and implement **good practices** and **procedures** for quality control and to constantly **monitor** them to ensure that they are properly complied with and are **regularly updated** as and when required.

Introduction - Contd



- Revised International Standard on Quality Control 1 (ISQC 1) became effective on **December 15, 2009**. Applicable for firms that **perform audits** and **reviews** of financial statements and other assurance and related service engagements.

Objective

- To give a firm reasonable assurance 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.

Firm Policy



- Based on International Standards on Quality Control 1 (ISQC 1) and ISA 220.
- Every practice unit regardless of its size is expected to have a system of quality control for its practice.
- Quality control is based on policies and procedures applicable to audit services provided by the firm.

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.
- 7. Documentation of policies and procedures

Elements of a System of Quality Control



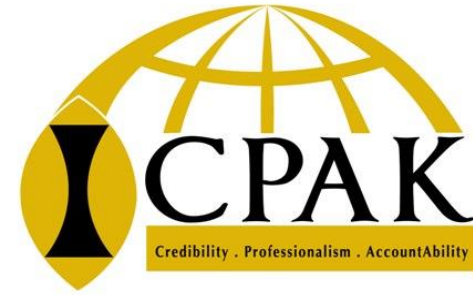
1. **Leadership responsibilities for control within the firm**
 -
 - Promote internal culture that quality is essential
 - Partner assumes ultimate responsibility
 - Assigned operational responsibility

Elements of a System of Quality Control



- Clear, consistent and frequent actions from all levels of management
- Rewarding high quality work
- Communicating actions appropriately through training, internal documentation, briefing memoranda etc.
- Establishing performance and reward based incentives
- Ability to identify, understand and develop QC issues

Elements of a System of Quality Control



2. Ethical requirements

IESBA Code establishes the fundamental principles of professional ethics .

- Independence
- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behavior

NOTE: If there is a threat, the firm MUST establish safeguards to the threats

Elements of a System of Quality Control



- *Firm should document safeguards to address threats to compliance with the fundamental principles. Reinforcement of fundamental principles is by:*
 - *Leadership of the firm*
 - *Education & training*
 - *Monitoring*
 - *A process of dealing with non-compliance*

Elements of a System of Quality Control



- **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.

Elements of a System of Quality Control



- **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.

Elements of a System of Quality Control



QUOTE

"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)

Elements of a System of Quality Control



3. **Acceptance and continuance of client relationships and specific engagements.**
 - Integrity of client
 - Industry knowledge
 - Competence
 - Capabilities
 - Resources
 - Reporting deadlines

Note: If a firm declines an engagement, the reasons should be communicated to the firm.

Elements of a System of Quality Control



4. Human resources

- Recruitment
- Performance evaluation
- Capabilities
- Career development
- Competence
- Promotion
- Compensation
- Estimation of personnel needs.

Elements of a System of Quality Control



5. Engagement performance

“consistence in the quality of engagement performance”

- Team briefing
- Compliance with applicable engagement standards
- Supervision, staff training and coaching
- Review of work performed
- Documentation of work performed
- Processes and procedures to keep policies current.

Elements of a System of Quality Control



6. Monitoring

- Monitoring program
- Inspection procedures
- Report on the results of monitoring
- Evaluating, communicating, and remedying deficiencies
- Complaints and allegations

6. Monitoring

- Relevancy of policies of QC – Adherence to professional standards and applicable legal and regulatory requirements.
- Effective operations of the policies- design and implementation.
- Compliance with the policies- Application.

Elements of a System of Quality Control



- **DOCUMENTATION**
- Documentation of the firm's policies and procedures
- Documentation of the engagement
- Documentation of the engagement quality control review
- File access and retention

7. Documentation of the system of QC

- "The form and content of documentation is judgmental and depends on a number of factors e.g.
- Size of firm and number of offices
- Nature and complexity of firms practice and organization.

CONCLUSION



- “Quality in a service or product is not what you put into it. It is what the client or customer gets out of it.” ~**Peter Drucker**
- “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**

Small firm challenges



- 1. Limited staff - Trapped between doing the job and growing business
- 2. Legal and social environment
 - Insufficient regulation or over-regulation
 - Potential lack of understanding of audit
- 3. Availability of resources
 - Financial
- Guidance, manuals, procedures
- 4. Developing and designing processes from the scratch

Tips for Cost-Effective ISQC 1 Application



TIP 1

- Take time to study the standard and review available supporting implementation guidance
- ISQC 1 is available in the IAASB Clarity Center.
- In August 2011, the SMP Committee of the International Federation of Accountants (IFAC) published the third edition of the Guide to Quality Control for Small- and Medium-Sized Practices.

Tips for Cost-Effective ISQC 1 Application



TIP 2

1. Compare the Current QC system of your firm with ISQC 1
2. a) comparing each requirement within the standard to the existing policies and procedures;
3. b) highlighting those requirements not currently met; and
4. c) determining what changes need to be made

Tips for Cost-Effective ISQC 1 Application



TIP 3 TAILOR THE QC POLICIES AND PROCEDURES

1. the elements of a QC system are common to all firms no matter their size, smaller and simpler practices will often have smaller and simpler QC systems
2. ISQC 1 also recognizes that some requirements are not always relevant. For example, **sole practitioners** with no staff would not require policies and procedures for the assignment of appropriate personnel to the engagement team, for certain review responsibilities, and for the annual communication of the results of monitoring to engagement partners within the firm

Tips for Cost-Effective ISQC 1 Application



TIP 4 ASSESS THE NEED FOR OUTSIDE HELP

END



Questions