



A FRAMEWORK FOR AUDIT QUALITY

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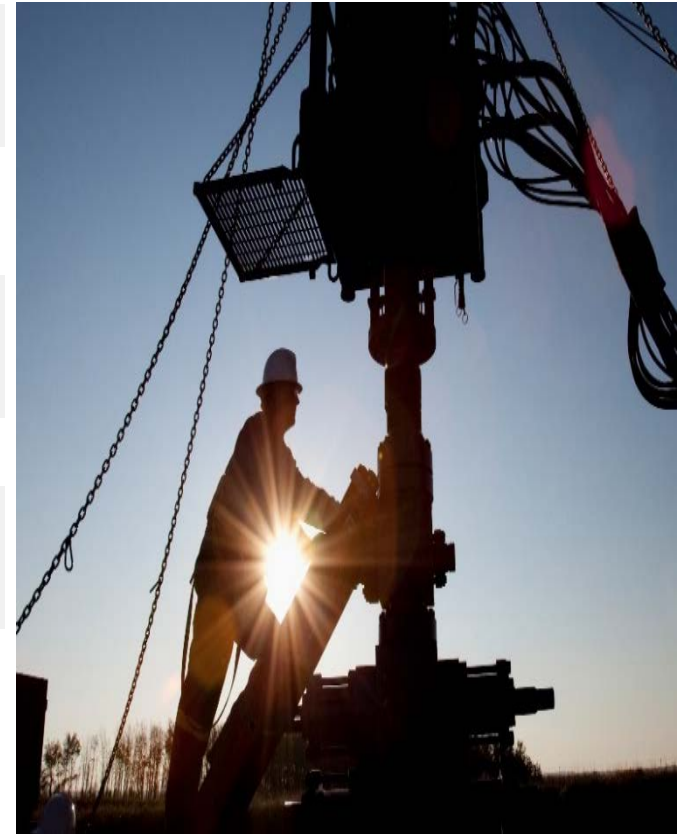
Agenda



Introduction

Elements of Quality Control

Q&A



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



- The objective of the Framework for quality include:
 - Raising awareness of the key elements of audit quality.
 - Encouraging key stakeholders to explore ways to improve audit quality
 - Facilitating greater dialogue between stakeholders on the topic

Overview



- ❑ The responsibility for performing quality audits rests with the auditors. However, the environment within the reporting chain needs to be supportive.

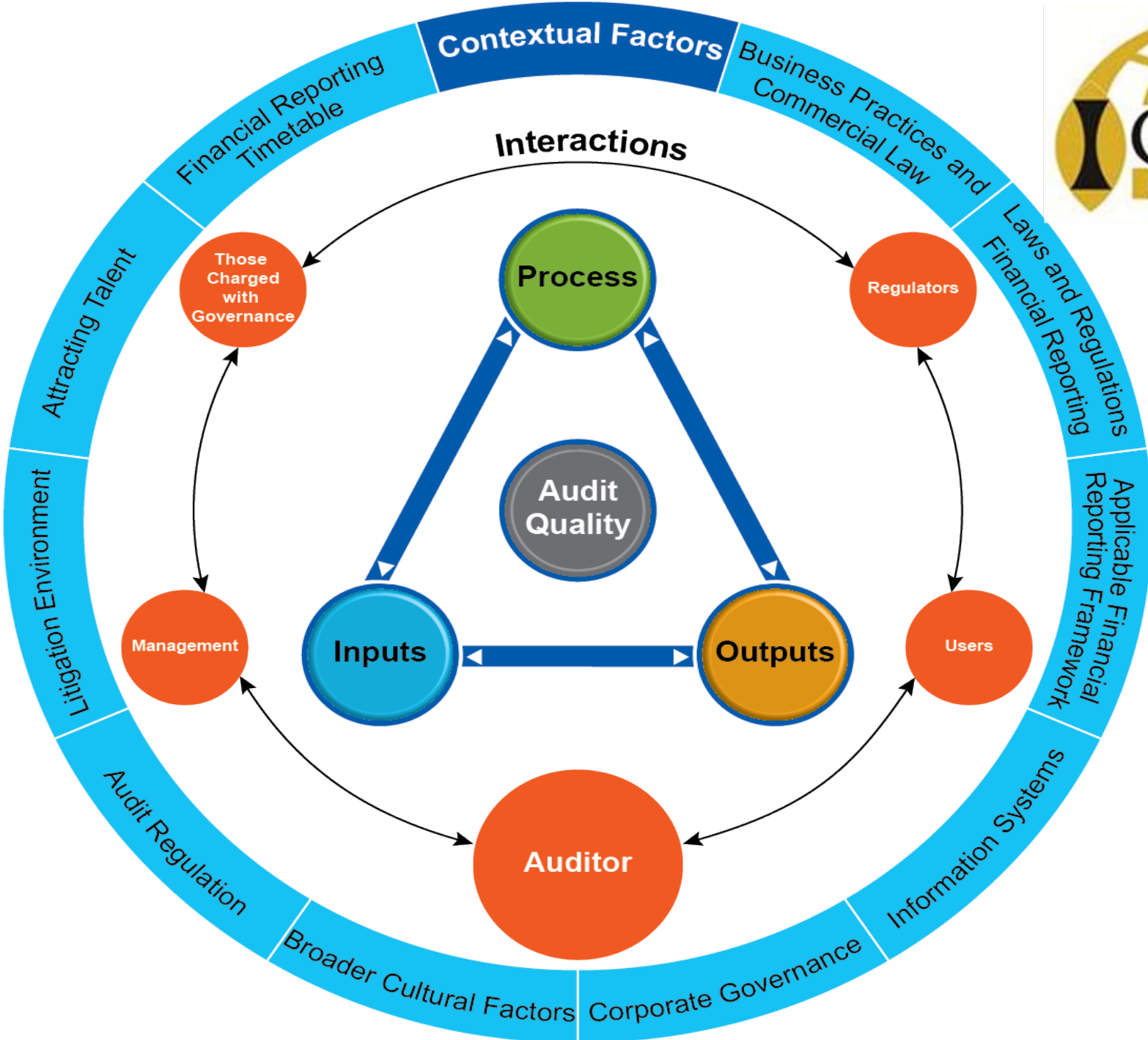
- ❑ Audit quality is achieved by audit teams that:
 - Exhibit appropriate values, ethics and attitudes;
 - Has sufficient knowledge, skills and experience to perform audit work;
 - Applies a rigorous audit process and quality control procedures;
 - Provide useful and timely reports; and
 - Interacts appropriately with relevant stakeholders

Framework for Audit Quality



Key Elements

- Inputs
- Process
- Outputs
- Interactions
- Contextual Factors



Framework for Audit Quality

Framework for Audit Quality – Key elements



Inputs

- Inputs are grouped into the following:
 - a) The values, ethics and attitudes of auditors, which are influenced by the culture prevailing within the audit firm; and
 - b) The knowledge, skills and experience of auditors and the time allocated for them to perform the audit.
- Do you have relatively straightforward quality control policies and procedures

Framework for Audit Quality – Key elements



Inputs

- External consultation, technical support and using independent staff in quality monitoring processes (may be challenging for SMPs)
- A culture of consultation may need to involve external technical resources (e.g., professional accountancy organizations, other firms, or suitably resourced third-party organizations)
- SMPs with only a small number of audit clients may have difficulties retaining staff with relevant audit knowledge and experience

Framework for Audit Quality – Key elements



Outputs

- Outputs include reports and information presented by one party to the another.
- Some outputs are not visible, e.g. improvement in the entity's reporting processes resulting from audit findings
- You need a strong and frequent communications with senior management due to close involvement in the entity's business and lengthy relationships
- Quality enhances opportunity to provide meaningful advice to clients

Framework for Audit Quality – Key elements



Contextual Factors

This include a number of environmental or contextual factors e.g.:

- Laws and regulations and corporate governance
- Business practices and information systems, and applicable financial reporting framework, are sometimes less complex
- Little distinction between management and those charged with governance (e.g., an owner-manager will usually fulfil both roles)
- Audit committees are rare and, when they exist, members are often not independent or financial literate
- Reporting deadlines

Reflect on the following



- Policies/systems that ensure quality in your workplace
- Policies on acceptance of clients
- Staff development programs
- Responding to complaints on quality from clients

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.

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 qualifications, practical experience and through continuous professional development 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	<ul style="list-style-type: none">• Acceptance/ continuance of client relationship• Reviews and Opinions• Quality control reviewer
Ethical requirements	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Pre-engagement procedures
Human resource	<ul style="list-style-type: none">• Assignment of engagement teams• Performance reviews• Staff development programs
Engagement performance	<ul style="list-style-type: none">• Team briefing• Documentation of work performed• Supervision & EQCR• Consultations

QC Policies link to Engagement Reviews (continued)



QC Policy	Engagement Review
Monitoring	<ul style="list-style-type: none">• Adherence to professional standards, legal and regulatory requirements.• Relevance of policies• Partners rotation
Documentation of the system of QC	<ul style="list-style-type: none">• Reporting framework

Critical thinking process



Reflect on Previous Experience

Reflect on Lessons Learned



Framework for Audit Quality – Next Steps



- All stakeholders encouraged to consider how they may use the *Framework* in reflecting how they may influence improvement in audit quality
- Actions to raise awareness and promote the use of the *Framework* and identify future opportunities to enhance audit quality
 - Audit Quality webpage on the IAASB's website
 - Prominence in IAASB outreach and liaison activities
 - Use in revising ISQC 1 and ISA 220
 - Future follow-up activities after a period of time to understand how and in what way the *Framework* is being used

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

