

2ND SMALL AND MEDIUM PRACTITIONERS (SMP) FORUM

By
CPA Rahab Ntoiti
Ag. Senior Manager
Registration and Compliance
at
The Crown plaza, Nairobi
16th July, 2019

Quality Control in Audit Practice



Scope of the ISA

- Deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements.
- Also addresses, where applicable, the responsibilities of the engagement quality control reviewer.
- This ISA is to be read in conjunction with relevant ethical requirements.

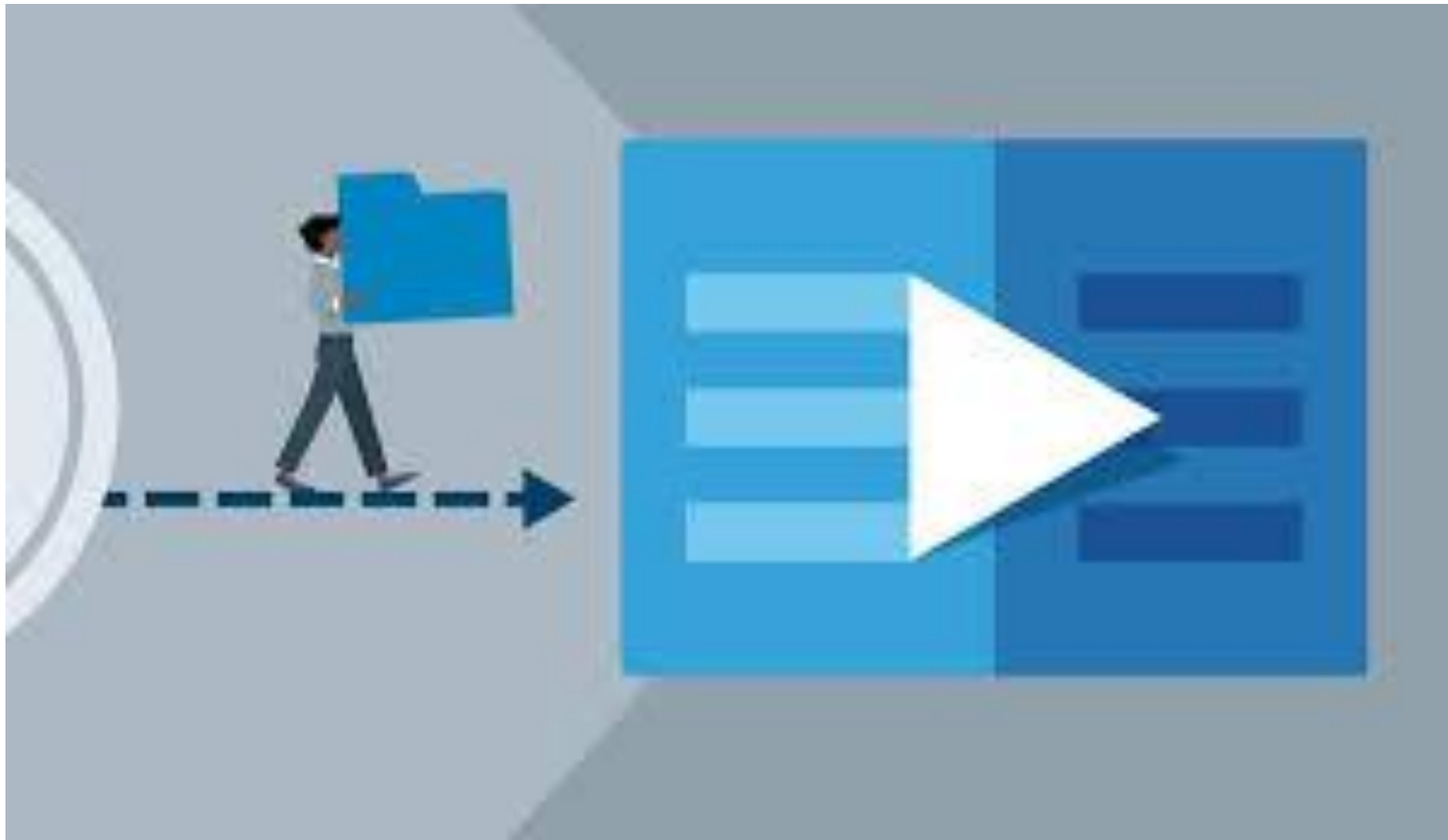
ISA 220 Objective



Objective

- 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.

ISQC₁ TO ISQM₁ & ISCM₂



ISQC₁ vs ISQM₁



- IFAC through IAASB issued an exposure draft proposing to amend ISQC₁ to ISQM₁
- The proposed ISQCM 1 includes a new proactive risk-based approach to an effective system of quality
- ISQC 1 required firms to develop and maintain a system of quality control.
- Increasing firm leadership responsibilities and accountability, and improving firm governance;
- Modernizing the standard for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers; and
- More rigorous monitoring of quality management systems and remediating deficiencies.

ISQM2-Engagement Quality Reviews



ISQM2 addresses the responsibilities of multiple parties, i.e., the **firm** and the **engagement quality reviewer**



Scope of ISQM₂



- Appointment and Eligibility of Engagement Quality Reviewers
- Performance of the Engagement Quality Review
- Documentation responsibility for documentation of the engagement quality review

Proposed components of ISQM 1 Control



Proposed components of ISQM 1

Control



1. Governance and leadership (adapted from “leadership responsibilities for quality within the firm” in extant ISQC 1);
2. The firm’s risk assessment process (**new**);
3. Relevant ethical requirements;
4. Acceptance and continuance of client relationships and specific engagements;
5. Engagement performance;
6. Resources (adapted from “human resources” in extant ISQC 1);
7. Information and communication (**new**);
8. Monitoring and remediation process (adapted from “monitoring” in extant ISQC 1).

1. Governance and leadership



ISQC 1

No much details as to what is expected from firm leadership in relation to governance

ISQM 1

Emphasises on various aspects including Behaviour, appropriate qualification and holding leadership accountable through performance evaluation

Governance and leadership continued



ISQC₁

Does not assign independence matters to any leader in the firm

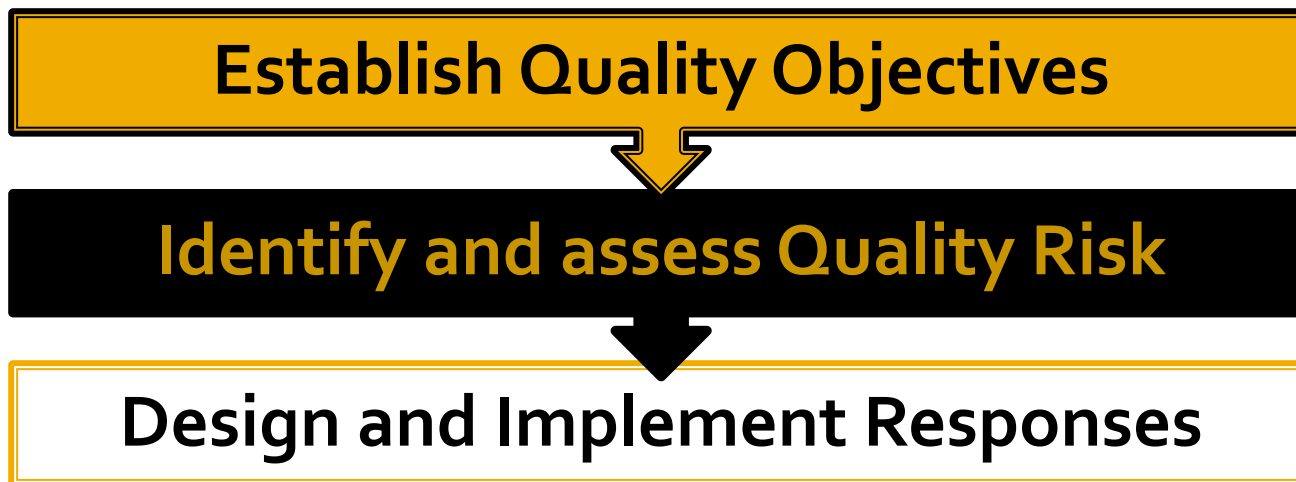
ISQM₁

Require a firm to identify appropriate personnel within the firm's leadership to be responsible and accountable for independence matters

2. Firms risk assessment



- Focuses firms' attention on risks that may have an impact on engagement quality



Identifying and assessing quality risks



- The threshold for identifying quality risks is those risks for which
 - a) there is a reasonable possibility of the risk occurring; and
 - b) if the risk were to occur, it may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).

Design and implement Responses



ISQM 1 requires the firm to design and implement responses to address the quality risks, in order that the quality objectives are achieved

3. Relevant Ethical requirements



The system should ensure

- ❖ The firm , its personnel and others **understands** the relevant ethical requirement
- ❖ The firm , its personnel and others **fulfill** the requirement of the relevant ethical requirement
- ❖ The firm, its personnel and others subject to relevant ethical requirements **identify and appropriately respond** to breaches of the relevant ethical requirements, including those related to independence, in a timely manner.

4. Acceptance and continuance of client relationships and specific engagements



- The firm should obtain sufficient appropriate information about the **nature** and **circumstances of the engagement** and the **integrity** and **ethical values** of the client
- Firm's **ability** to perform the engagement in accordance with professional standards and applicable legal and regulatory-resources, and access to information
- The firm's **financial and operational priorities**
- The firm response appropriately in circumstances when the firm declines an engagement, the reasons should be communicated to the client.

5. Engagement performance



- Team briefing
- Role of engagement partner
- Compliance with applicable engagement standards
- Supervision
- Review of work performed
- Documentation of work performed

6.Resources



The firm should develop and implement policies quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources, including human resources, technological resources, and intellectual resources,

Resources Continuation



Technological Resources

Use of technological resources, both in the performance of engagements and the operation of the system of quality management

Intellectual Resources

In performing an audit of financial statements, engagement teams ordinarily depend on the firm's methodology to perform their work, which is based on professional standards and addresses applicable law or regulation

Resources Continuation



Human resources

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

7. Information and Communication



- Includes requirements for the firm to establish an information system and emphasizes the need for effective two-way communication within the firm, as well as the responsibility of all personnel for communication

8. Monitoring and Remediation Process



- Has various new and improved requirements for monitoring and remediation, in particular;
- i. Tailoring the monitoring activities to provide a sufficient basis for the firm to evaluate the system.
 - ii. The requirements focus on monitoring all aspects of the system
 - iii. The requirements have been clarified to differentiate between findings and deficiencies, so that
 - iv. it is clear that not all findings are deficiencies for which further action is needed.

Monitoring and Remediation continued



- Requirement to investigate the root causes of deficiencies so that appropriate action can be taken to remediate the deficiencies effectively
- Requirement to determine the effectiveness of remedial actions, and an evaluation, at least annually, of whether there is reasonable assurance that the objective of the system has been achieved.

Monitoring Activities, Including Inspection of Engagements



- Factors that the firm would consider in designing its monitoring activities;
- ✓ requirement to conduct inspections of in-progress engagements (in-process reviews) determining the nature, timing and extent of the inspection of engagements, the firm takes into account various factors set out in the standard, such as changes in the system.

Monitoring Activities, Including Inspection of Engagements



- ✓ Determine the nature, timing and extent of the inspection of engagements, the firm takes into account various factors set out in the standard, such as changes in the system.
- ✓ the firm is still required to inspect one completed engagement per engagement partner on a cyclical basis. The firm to determine the length of the cycle

Monitoring Activities, Including Inspection of Engagements



Conclusion

When the music changes , so does the dance –
African proverb

- When the winds of change blow some people build walls and others build wind mill-Chinese proverb



END



Questions