



SQC 1 "Quality Control for Firms that perform Audits & Reviews of Historical Financial Info, and Other Assurance & Related Services Engagements" (+)
SA 220 Quality Control for an Audit of FS

Firms to have system of quality control that provides reasonable assurance that:

- a) Firm & personnel comply with professional standards, regulatory & legal (PRL) requirements, &
- b) Reports issued by firm or partners are appropriate in circumstances.

Engagement Partner(EP) -partner or other person in firm who is member of ICAI in full time practice & responsible for engg, its performance & for report issued on behalf of firm, & has authority from professional, legal or regulatory body.

Elements of a System of Quality Control

- a) Leadership responsibilities for quality within firm
- b) Ethical requirements
- c) Acceptance and continuance of client relationships and specific engg
- d) Human resources
- e) Engagement performance
- f) Monitoring

Leadership Responsibilities for Quality within Firm [SA 220]

Actions of EP and appropriate msgs to other members of engg. team, in taking responsibility for overall quality on each audit engg, emphasise:

- a) Importance to audit quality of:
 - i) Performing work that complies with PRL requirements
 - ii) Complying with firm's quality control policies & procedures (P&P)
 - iii) Issuing auditor's reports appropriate in circumstances
 - iv) Engg. team's ability to raise concerns without fear of reprisals
- b) Fact that quality is essential in performing audit engg.



Considerations → upholding quality of firm

Following considerations should be taken into account while upholding quality of firm: -

- i) Firm's personnel P&P designed to demonstrate its commitment to quality.
- ii) Firm devotes sufficient resources for development & documentation of quality control P&P.
- iii) Firm assigns its mgt responsibilities that commercial considerations don't override quality of work performed
- iv) Before accepting engg acquire vital info about client. Decide about integrity of Client, promoters and KMP, competence (including capabilities, time & resources) to perform engg & comply with ethical requirements.



Ethical Requirements

1. Confidentiality
2. Objectivity
3. Integrity
4. Professional Competence & Due Care
5. Professional Behaviour

Independence Policy

Policies & procedures should enable firm to:

- **Communicate** independence requirements to personnel & others.
- **Identify & evaluate** circumstances creating threat to independence.
- Take appropriate **action** to eliminate threats/withdrawal from engg.

Policies & Procedures in case of breach of Independence requirements

Policies and procedures should include requirements for:

- a) All subject to independence requirements to **promptly notify firm of independence breaches**
- b) Firm to **promptly communicate** identified breaches to:
 - i) **EP** who, with firm, needs to address the breach &
 - ii) **Other relevant personnel** in firm & others subject to independence who need to take appropriate action &
- c) **Prompt communication** by EP and other individuals to firm of actions taken to resolve the matter, so that firm can determine further action.

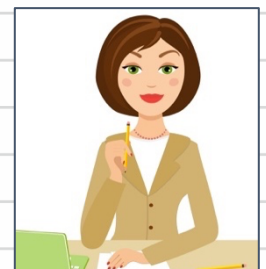
Notes:

- ✓ At least **annually**, firm should obtain **written confirmation** of compliance with P&P on independence from all firm personnel.
- ✓ Familiarity threat is relevant in FS audits of **listed entities**. EP rotated after **7 years**.

Acceptance & Continuance of Client Relationships and Engagement

Info. such as following assists EP in determining whether decisions regarding acceptance and continuance of audit engg. are appropriate:

- **Integrity** of principal owners, key mgt and TCWG of entity
- Whether engg. team is **competent** to perform audit engg. and has necessary **capabilities**, including **time and resources**
- Whether firm & engg. team can comply with relevant **ethical requirements** &
- **Significant matters** arisen during current or previous audit engg, & their implications for continuing the relationship.



Evaluating the Integrity of Client

With regard to integrity of a client, matters that firm considers include, for eg:

- ✓ Reasons for **proposed** appointment of firm and non-reappointment of previous firm.
- ✓ **Nature of client's operations**, including business practices.
- ✓ Info. concerning **attitude** of client's owners, key mgt & TCWG towards matters such as aggressive interpretation of a/c stds & internal control environment.
- ✓ Whether client is **aggressively** concerned with maintaining firm's fees as low as possible.
- ✓ Indications of **inappropriate** limitation in scope of work.
- ✓ Indications that client might be involved in **money laundering** or other criminal activities.

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Matters to be considered in determining if firm has capabilities, competence, time and resources to undertake new engg:

- ✓ Firm personnel have **knowledge** of relevant industries or subject matters
- ✓ Firm personnel have **experience** with regulatory or reporting requirements, or ability to gain necessary skills & knowledge effectively
- ✓ Firm has **sufficient personnel** with the necessary competence & capabilities
- ✓ **Experts** are available, if needed
- ✓ **Individuals meeting criteria** & eligibility requirements to perform EQCR are available and
- ✓ Firm be able to **complete engagement within reporting deadline**.

Knowledge >> Experience >> Sufficiency >> Experts + EQCR >> Completion

Withdrawal from Engg (Breakup Story)

Policies and procedures on withdrawal from engg include following:

- ✓ **Discussing** with client's **mgt & TCWG** regarding **action** that firm might take based on relevant facts and circumstances.
- ✓ If firm determines it's **appropriate to withdraw**, **discussing** with **mgt & TCWG** **withdrawal & reasons** for withdrawal from engg.
- ✓ Considering **PRL requirement** to report withdrawal, with **reasons**, to **regulatory authorities**.
- ✓ **Documenting significant** issues, consultations, conclusions and basis for conclusions.

[Discuss → Withdraw → Reporting → Documenting]



Human Resources

Establish policies/procedures to reasonable assure that:

- Firm has suff. personnel with capabilities, competence & commitment (CCC) to ethical principles &
- EP to issue appropriate report.

Such policies address following personnel issues:

Recruitment → Performance evaluation → Competence/Capabilities → Career Development → Promotion/Compensation → Estimation of personnel needs

Firm should establish P&P requiring that:

- a) Identity & role of engg. partner are communicated to key members of client's mgt & TCWG
- b) Engg. partner has appropriate capabilities, competence, authority & time to perform the role;
- c) Responsibilities of EP are clearly defined & communicated to that partner

Engg. Performance

- ✓ EP has responsibility for direction, supervision and performance of audit engg.
- ✓ He is responsible for auditor's report being appropriate in circumstances.
- ✓ Further, review of audit documentation before issue of audit report is his responsibility.
- ✓ Ensure that SAAE been obtained to support conclusions reached & for issuance of auditor's report.

Consultation should take place in **difficult or contentious matters** pertaining to engg.

Includes discussion with individuals **within or outside** firm having **specialized expertise**, to resolve difficult or contentious matter.

Review responsibilities are determined on basis that more experienced engg team members, including EP, review work performed by less experienced team members.

Reviewers consider whether:

- a. Work has been performed in **accordance with PRL requirements**
- b. **Significant matters** have been raised for further consideration
- c. Appropriate **consultations** have taken place and resulting conclusions have been documented and implemented
- d. There is a need to revise the **nature, timing and extent of work performed**
- e. The **work performed** supports conclusions reached and is **appropriately documented**
- f. The **evidence** obtained **sufficient and appropriate** to support report and
- g. The **objectives** of engagement procedures have been **achieved**.

Engagement Quality Control Review (EQCR)

Engagement quality control reviewer -

- partner, person in firm (member of ICAI),
- qualified external person, or team of individuals,
- with experience and authority
- to objectively evaluate, before report is issued,
- significant judgments engg. team made and conclusions reached in formulating report.

Review Responsibility:

- EP shall take responsibility for reviews being performed as per firm's review policies.
- For audits of FS of listed entities, EP shall:
 - Determine that EQCR has been appointed
 - Discuss significant matters arising during audit engg, with EQCR and
 - Not date auditor's report until completion of EQCR i.e. EQCR should be completed before Audit Report is issued.

EQCR for audits of FS of listed entities includes considering the following:

- ✓ Engg team's evaluation of firm's independence in relation to specific engg.
- ✓ Significant risks identified during the engg & responses to those risks.
- ✓ Judgments made, w.r.t materiality and significant risks.
- ✓ Whether appropriate consultation taken place on differences of opinion or difficult or contentious matters, & conclusions from them.
- ✓ Significance and disposition of corrected & uncorrected misstatements identified during engg.
- ✓ Matters to be communicated to mgt & TCWG & regulatory bodies.
- ✓ Whether working papers selected for review reflect work performed in relation to significant judgments & support conclusions reached.
- ✓ Appropriateness of report to be issued.

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Documentation by EQCR:

1. Procedures required by firm's policies on EQCR have been performed.
2. EQCR has been completed before report is issued
3. Reviewer is not aware of any unresolved matters that would cause reviewer to believe that significant judgments engg. team made & conclusions they reached were not appropriate.



EQCR shall perform objective evaluation of significant judgments made by engg team, & conclusions reached in formulating auditor's report.

This evaluation shall involve:

- a) Discussion of significant matters with EP
- b) Review of FS & proposed auditor's report
- c) Review of selected audit documentation relating to significant judgments engg team made & conclusions reached
- d) Evaluation of conclusions reached in formulating auditor's report & consideration of whether proposed auditor's report is appropriate

Firm's policies and procedures are designed to maintain objectivity of EQCR.

For eg, engagement quality control reviewer:

- ✓ Is not selected by EP
- ✓ Does not participate in engg during period of review
- ✓ Doesn't make decisions for engg team
- ✓ Is not subject to other considerations that would threaten reviewer's objectivity.

Can EP consult EQCR during engagement? Yes as long as it doesn't affect quality of engg. Reviewer's objectivity should be maintained.

Engagement Documentation (ED)

- ✓ Assembly of final engg. files on timely basis. In case of audit, time limit is not more than 60 days after date of auditor's report.
- ✓ Retention period ordinarily is no shorter than 7 years from date of auditor's report, or, if later, date of group auditor's report.

Ownership of Engagement Documentation (ED): ED is property of firm. Firm may, at its discretion, make portions of, or extracts from ED available to clients, provided such disclosure doesn't undermine validity of work performed, or, in case of assurance engagements, independence of firm or its personnel.

Complaints and Allegations

- i) Firm should establish policies to deal appropriately with:
 - a) Complaints & allegations that work performed by firm fails to comply with PRL Requirements &
 - b) Allegations of non-compliance with firm's system of quality control. (types of complaints)
- ii) Complaints and allegations may originate within or outside the firm. May be made by firm personnel, clients or other 3rd parties. (within or outside?)

- iii) Firm establishes **clearly defined channels** for firm personnel to raise any concerns in manner that enables them to come forward without fear of reprisals. (how we receive them?)
- iv) Firm **investigates such complaints & allegations** as per established policies & procedures. Investigation is **supervised by partner with sufficient authority & experience** within firm but not involved in engg, & includes **involving legal counsel**. Small firms & sole practitioners may use qualified external person or another firm to carry out investigation. **Complaints, allegations and responses to them are documented**. (Investigate & document)
- v) Where results of investigations indicate deficiencies in design or operation of the firm's quality control policies & procedures, or non-compliance by individual or individuals with firm's SQC, firm takes **appropriate action**. (Action)

Monitoring

Quality control (QC) of engg. has to be monitored taking into account following factors:

- ✓ Deciding whether QC system of firm **appropriately designed & effectively implemented**.
- ✓ Examining whether **new developments** in PRL requirements reflected in quality control policies.
- ✓ Conducting monitoring by **entrusting responsibility of monitoring process** to a partner or other persons with sufficient and appropriate experience & authority in firm.
- ✓ Dealing with **complaints & allegations** against firm or any employees of it of non-compliance with professional stds or regulatory requirements by a person within or o/s the firm.
- ✓ Taking appropriate **remedial actions** against personnel who didn't conform to QC policies.
- ✓ **Taking action when deficiencies** in design or operation of firm's QC policies & procedures or non-compliance with firm's system of QC identified.

Differences of Opinion may arise:

- Within Engg Team, With those consulted, or Between EP and EQCR → Engg Team shall follow firm's policies & procedures for dealing with & resolving differences of opinion.

Documentation

Issues identified wrt compliance with relevant ethical requirements & how they were resolved.

Conclusions reached regarding **acceptance & continuance** of client relationships & audit engg.

Conclusions on compliance with **independence** requirements & relevant discussions with firm that support these conclusions.

Nature, scope, & conclusions resulting from **consultations** undertaken during audit engg.

"Like Auditors maintain QUALITY in your studies & fulfil your Dreams"