

Quality Control in Audit

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Chamber of Tax Consultants

What are the quality standards?

- Auditors in India are required to maintain quality control as per the following two standards:
 - SQC 1 – Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements
 - SA 220 – Quality Control for an Audit of Financial Statements

Importance of audit quality

- Why is there a misunderstanding among auditors about the importance of audit quality?
- How does not doing a quality audit affect an auditor?

Audit quality wrt small firms

- Can a small audit firm get away with a lower quality standard than a large firm?
- Do Quality Standards apply equally to small and large firms?

Audit quality & quality audit

- What is “Audit Quality”?
- What are the characteristics to be possessed by an engagement team (ET) that would achieve a “Quality Audit”?
- Who and what is responsible for the performance of “Quality Audits” and for “Audit Quality”?

**SQC 1 - Quality Control for Firms
that Perform Audits and Reviews
of Historical Financial Information and
Other Assurance and Related Services Engagements**

The nature of quality controls

- Why is an audit firm required to design, implement and effectively operate quality controls (QCs)?
- What assurance do QCs provide to an audit firm?

Elements of QC per SQC 1

- What are the six elements around which an audit firm should design its QC policies and procedures?

Documentation and communication of QC

- Why does SQC 1 require that an audit firm's QC policies and procedures must be (a) documented and (b) communicated?

Leadership responsibilities for quality within the firm

- What are the responsibilities of the managing partner, CEO or proprietor (Leadership) of the firm with regard to QC within the audit firm?

Ethical requirements

- What are ethical requirements?
- Which components are addressed within the Code of Ethics?

Independence

- What is auditor independence?
- What are threats to independence?

Suggested QCs to ensure ethics and independence

- What QCs could a firm install –
 - To ensure that its personnel (partners and professionals) adhere to ethical requirements?
 - To communicate independence requirements?

Suggested QCs to ensure ethics and independence

- What QCs could a firm install –
 - To identify and evaluate possible threats to independence?
 - To take action if the threats to independence cannot be reduced to an acceptable level?
 - To obtain written confirmations from its partners and professionals?
 - To confirm the independence of another firm that performs part of an engagement?

**ILLUSTRATIVE
ANNUAL FIRM PERSONNEL
INDEPENDENCE CONFIRMATION**

INSTRUCTIONS:

All partners and employees are required to complete a confirmation regarding their independence.

This declaration covers the period from _____ (date) to _____ (date)

This confirmation should reach _____ (MP) on or before _____ (date).

DETAILED DECLARATIONS:

Make the declarations below. If you do not agree, explain in a separate annexure why the 'disagree' responses are not independence-impairing situations?

#	Declaration	Agree	Disagree
1	During the period, I or my immediate family members did not have investments in an entity ³ to which I rendered any assurance services.		
2	During the period, I or my immediate family members did not have a borrowing from an entity to which I rendered any assurance services, unless the entity is a financial institution that lends in the normal course of business, and the borrowing was on its normal lending terms.		
3	During the period, I or my immediate family members did not give a loan to an entity to which I rendered any assurance services or to an officer, director, or major shareholder of that entity.		
4	During the period, I and my immediate family members were not an executor, administrator, or trustee of a trust/estate, and have authority to make investment decisions for the trust/estate, that had an investment in an entity to which I rendered any assurance services.		

³ "Entity", wherever referred to in this table, includes its holding and subsidiary companies.

In the ICAI publication: IMPLEMENTATION GUIDE TO SQC 1

a sample of "Illustrative Annual Firm Personnel Independence Confirmation" is provided.

Firms that do not yet have their own documented annual confirmation format may adopt the same or use this template to tailor their own format along similar lines

**ILLUSTRATIVE
INDEPENDENCE POLICIES
OF**

(Name of Firm)

APPLICATION

1. These Independence Policies ("Policy" or "Policies") are applicable, without exception, to all partners and employees ("firm personnel") of: _____ ("the Firm").

THE CONCEPTUAL APPROACH

2. If a Policy addresses a specific situation or relationship, such policy should be followed. Where the Policies do not cover a particular circumstance, the conceptual approach requires that threats to independence be identified, evaluated and addressed.
3. Under this approach, when the Firm provides assurance services to an entity ("auditee"⁶), all firm personnel have an obligation to make their best efforts to:
 - a. Identify circumstances or relationships that might create threats to independence
 - b. Evaluate whether these threats are clearly insignificant, and
 - c. In cases where the threats are not clearly insignificant, consult with the Ethics and Independence Partner and the Assurance Engagement Partner to identify and apply appropriate safeguards to eliminate the threats or reduce them to an acceptable level.

⁶ Where the auditee is a listed company, the term "auditee" includes all its holding and subsidiary companies.

In the ICAI publication:
IMPLEMENTATION GUIDE TO SQC 1
a sample of "Illustrative
Independence Policies" for a firm is
provided.

Firms that do not yet have their
own documented independence
policies may adopt the same or use
this template to tailor their own
policies along similar lines

Acceptance/ continuance of client/ engagement

- Why is the process of acceptance and continuance of a client relationship or of an engagement so important for an auditor?

Acceptance/ continuance of client/ engagement

- What is management integrity?
- Why is management integrity critical to an auditor?
- Why do managements compromise their integrity?
- When does management integrity typically get compromised?

Acceptance/ continuance of client/ engagement

- What kind of QCs can a firm establish for acceptance and continuance?

ILLUSTRATIVE
CLIENT / ENGAGEMENT
ACCEPTANCE AND CONTINUANCE FORM

(Where space is inadequate, expand or give reference of separate workpaper)

Client name:

Engagement name:

Period end:

Relationship:

Is this a new client relationship?	YES	NO
Is this a new engagement?	YES	NO
If not a new client relationship, age of the relationship		
If this is a recurring engagement, year of first performance and periodicity (eg annual, quarterly)		

In the ICAI publication:
IMPLEMENTATION GUIDE TO
SQC 1

a sample of “Illustrative Client/Engagement Acceptance and Continuance Form” for a firm is provided.

Firms may adopt the same or use this template to tailor their own policies along similar lines

Human resources

- Why is talent (or human resources) so important for an audit firm and why are QCs required for it?

Human resources

- What kind of QCs may a firm establish to ensure that its partners and professionals have the required capabilities and competencies?

Engagement performance

- Of the six elements of QC, why is engagement performance considered to be the most prominent?
- What are the steps in the process of engagement performance from a QC viewpoint?

Engagement performance

- Why is engagement planning given so much importance in the SAs?

Engagement performance

- What QCs does a firm need to put in place to ensure that engagement planning meets professional, regulatory and the firm's requirements?

Worksheet reference:
Prepared by: _____ Date: _____
Reviewed by: _____ Date: _____

**ILLUSTRATIVE
ENGAGEMENT PLANNING MEMORANDUM**
(Where space is inadequate, expand or give reference of separate worksheet)

Client name:

Engagement name:

Period end:

Deliverables:

Name of deliverable	Date of deliverable

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In the ICAI publication: IMPLEMENTATION GUIDE TO SQC 1

a sample of “Illustrative Engagement Planning Memorandum” for a firm is provided.

Firms may adopt the same or use this template to tailor their own policies along similar lines

Engagement performance

- After planning, what QCs should be established by a firm for engagement performance, supervision, documentation, reporting and communication?

Engagement performance

- How does the firm follow a policy of having the work performed by ETs duly reviewed?

Engagement performance

- How does a firm maintain the confidentiality, safe custody, integrity, accessibility, retainability and retrievability of engagement documentation?

Engagement performance

- What policy and procedures should a firm establish for consultation?

Engagement performance

- What policies should a firm have for resolving differences of opinion?

Engagement performance

- How does the firm meet the requirement of performing an engagement quality control review (EQCR) on its engagements?

Monitoring

- Why is monitoring of a firm's QC policies and procedures important?
- How does the monitoring process generally work?

Monitoring

- How does the firm deal with instances of QC deficiencies observed?

Monitoring

- How does the firm deal with complaints and allegations?
- What kind of documentation does the firm prepare and retain to provide evidence of its system of QC?

**ILLUSTRATIVE
FIRM QUALITY CONTROL INSPECTION CHECKLIST**

SECTION A – FIRM LEVEL QUALITY CONTROLS

LEADERSHIP RESPONSIBILITIES

Policy	Y/N	Remarks, if "No"
Has the Firm leadership demonstrated that it has assumed ultimate responsibility for the Firm's system of QC ¹¹ ?		
Does the Firm have an effective mechanism in place to ensure that commercial considerations do not override the quality of work performed?		
Has responsibility for the Firm's QC been assigned to a QC partner or other duly empowered individual?		
Are personnel policies designed to reward quality?		
Are sufficient monetary and human resources applied to maintain and augment QC policies and procedures within the Firm?		
RATING	Full / near full compliance	Part compliance
		No compliance

¹¹ QC = quality control

**In the ICAI publication:
IMPLEMENTATION GUIDE TO
SQC 1**

a sample of “Illustrative Firm Quality Control Inspection Checklist” for a firm is provided.

Firms may adopt the same or use this template to tailor their own policies along similar lines

SA 220 - Quality Control for an Audit of Financial Statements

SA 220

- Why are there two QC standards – SQC 1 and SA 220?

SA 220

- Can an engagement partner (E-Partner) assume that the firm-level controls are effective when he performs an audit?
- What is the objective of SA 220?
- What are the elements of QC described in SA 220?

SA 220: Leadership responsibilities

- Who is the leader and what should his actions and messages emphasise?

SA 220 – Relevant ethical and independence requirements

- What are the E-Partner's responsibilities with regard to ethical requirements?
- How does the E-Partner perform his duty with regard to auditor independence on the engagement?

SA 220 – Acceptance/ continuance of client relationships and audit engagements

- What role does the E-Partner have to play with regard to acceptance and continuance of client relationships and audit engagements?
- What is the kind of information that helps the E-Partner come to his conclusion?

SA 220 – Assignment of ETs

- An E-Partner is an important leader who has a role in deciding the composition of the ET. How does he evaluate whether the ET on his audit has the appropriate competence and capabilities?

SA 220 – Engagement performance

- What are the various components of engagement performance covered by the standard?
- What are the expectations of the standard in respect of direction, supervision and performance at the engagement level?

SA 220 – Engagement performance

- What is the responsibility of the E-Partner for performing reviews of the work performed?
- When a specialist is used as a member of the ET, how is his work reviewed?

SA 220 – Engagement performance

- Why is consultation a strong QC and what are the E-Partner's responsibilities in this?

SA 220 – Engagement performance

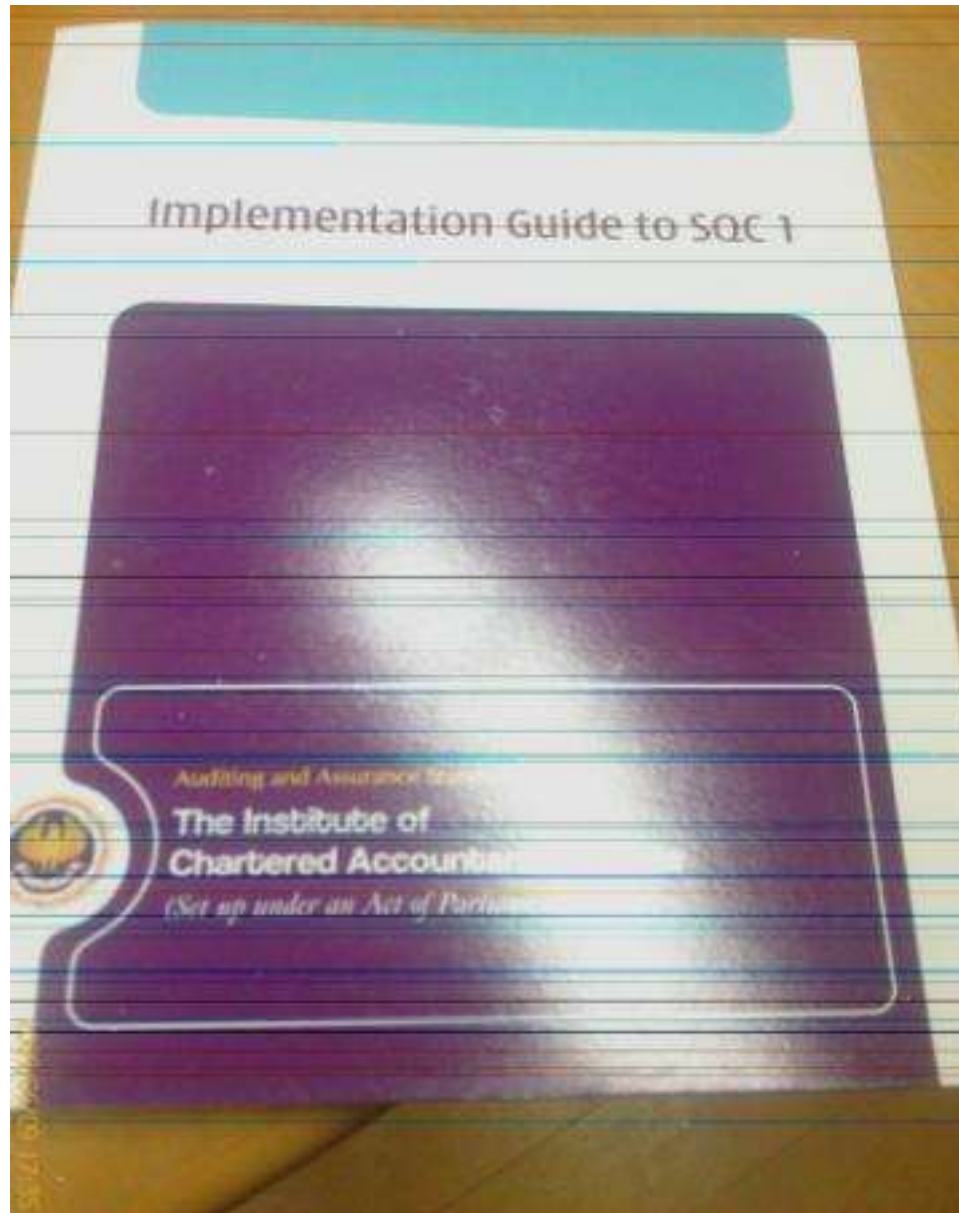
- What are the responsibilities of the E-Partner for EQCR?
- How does the reviewer perform his evaluation?

SA 220 - Monitoring

- What is the role of an E-Partner vis-à-vis the firm's Monitoring QC?

SA 220 - Documentation

- What are the key areas that should be documented, among others, by the ET in the audit workpapers file?



ICAI has published an Implementation Guide to SQC 1

This Guide provides ready-made, illustrative Policies & Procedures, Forms and Checklists (with CD) that an SMP may use, with or without modification, to comply with SQC 1