

STANDARD ON QUALITY CONTROL (SQC)-1



**By Jinesh Mehta
FCA, CISA.**

STANDARD ON QUALITY CONTROL (SQC)-1

- ICAI
- October 2007
- New standard for firms.
- **STANDARD ON QUALITY CONTROL (SQC)-1**



**DO WHAT
IS RIGHT,
NOT WHAT
IS EASY**



STANDARD ON QUALITY CONTROL (SQC)-1

applicable to all the professional firms*

- Audit of Historical Financial Information.
- Review of Historical Financial Information.
- Assurance & Other Related Services Engagements.



* *Proprietorship & Partnership.*

STANDARD ON QUALITY CONTROL (SQC)-1

The nature of Policies & Procedures

&

Manner, Contents & Form of Documentation

Factors:



- Size & offices;
- Nature & complexity of the firm's practice,
- Risks associated with the firm's practice
 - Specific engagements.



STANDARD ON QUALITY CONTROL (SQC)-1

Why SQC-1?



Till date no standards for CA firms,

For Audit & Preparation & Presentation of Accounts.

- Right direction & at a right time,
- will improve the quality of work by CA firms &
- enhance its acceptability at international level.



STANDARD ON QUALITY CONTROL (SQC)-1

Date of Applicability of SQC-1?

OPTIONAL

➤ **Recommendatory** for all engagements relating to accounting periods beginning on or after **1st April 2008**;
&

➤ **Mandatory** – **1st April 2009**.



no
 maybe

MANDATORY

www.shutterstock.com · 277476932



STANDARD ON QUALITY CONTROL (SQC)-1

objective of SQC-1?



- Establish Standards for firms; &
- **Provide Guidance** to firms to achieve its objective (I.e. Issuing of Reports)
- Provide outlines for **designing & implementation** of P & P to ensure “Quality” in firm’s performance.



ELEMENTS OF SYSTEM OF QUALITY CONTROL

include (P&P) for:



1. **Leadership** responsibilities for quality within the firm



2. Ethical Requirements

3. **Acceptance & continuance** of client relationships & specific engagements

4. Human Resources

5. Engagement Performance

6. **Monitoring**

7. **DOCUMENTATION & COMMUNICATION**



ELEMENTS OF SYSTEM OF QUALITY CONTROL



DOCUMENTATION

&

COMMUNICATION



ELEMENTS OF SYSTEM OF QUALITY CONTROL

firm should Document & Communicate the QC P&P to the firms' personnel.



➤ Review periodically

➤ Monitor it & get the feedback from it's personnel:

➤ Update timely



➤ Make sure its operations.

➤ Put in place the **crisis management system** i.e. Course of action, in case of non-compliance



The Crisis Management Cycle

- Identifying Risks and Threats
- Risk Avoidance
- Risk Reduction
- Risk Management
- Business Continuity



ELEMENTS OF SYSTEM OF QC

1. Responsibilities of Leadership for QC within the firm.

- To promote an **internal culture**
- **Quality is essential in performing engagements**
- **Managing Partner/CEO** must assume responsibilities



**OUR CULTURE
AND VALUES**

5 Star Reputation



ELEMENTS OF SYSTEM OF QC

1. Responsibilities of Leadership for QC within the firm

➤ Saying is easy but implementation difficult

➤ How to promote & take lead?

1. Leaders must set example by their own c
2. Communicate System of QC to the firm's personnel by Training, workshops, formal newsletters, Brain storming sessions.





ELEMENTS OF SYSTEM OF QC

2. Ethical Requirements



Provide reasonable assurance that firm & its personnel comply with relevant ethical requirements
firm should establish P&P, which deals with the following:



1. Integrity
2. Objectivity
3. Professional competence & due care
4. Confidentiality; &
5. Professional behavior



- Reliability
- Objectivity
- Accuracy
- Relevance



ELEMENTS OF SYSTEM OF QC

2. Ethical Requirements

Independence: firm must establish P&P, to enable the firm to:

- Communicate its **independence requirements** to its personnel & others;



- Evaluate circumstances & relationships that create **threats to independence**;



- Take appropriate action to eliminate those threats or **reduce them to an acceptable level.**



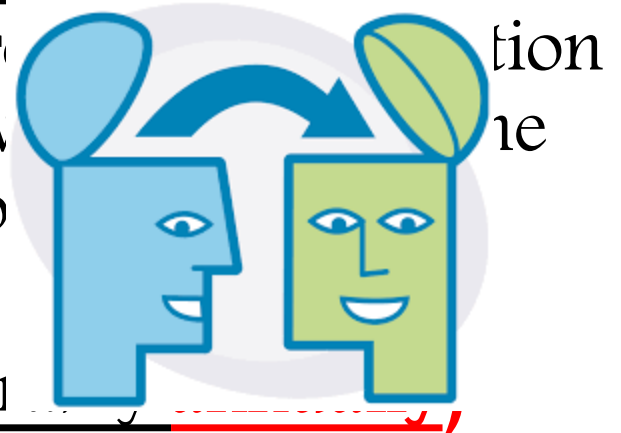
For all these Independence matters, this SQC-1 has put lot of responsibilities on the shoulders of **“Engagement Partner”**



ELEMENTS OF SYSTEM OF QC

2. Ethical Requirements

Engagement Partner to provide the firm with information about client engagements, **scope** of work, and the firm to evaluate the overall impact, of the engagement on the firm's independence and ethical requirements.



Firm has to **update its records** (preferably annually) relating to independence & design policies to make sure that it would get notified of breaches of independence & enable it to take appropriate actions to resolve such situations.

Rotation of Engagement Partner is required for a specified period. Otherwise it would impair independence. As per SQC-1, it should rotate every **SEVEN years** in case of audit of listed companies.



ELEMENTS OF SYSTEM OF QC

3. Acceptance & Continuance of Client Relationships & Specific Engagements

The firm has to establish P&P as regard Acceptance (*in case of new client*) or Continuance (*in case of existing client*) of Client relationship & Other specific engagements, only where it:

1. Has considered the **integrity** of the client;
2. Is **competent** to perform the engagement;
3. Can comply with the **ethical** requirements.



ELEMENTS OF SYSTEM OF QC

3. Acceptance & Continuance of Client Relationships & Specific Engagements

Matters to be taken care off as regard **“Integrity of client”**

- Business **reputation of the client’s** principal owners key management, related parties.
- **Business practices** of the client.
- Client’s **intentions** as regard reduction of the firm’s fee as low as possible or try to limit the scope of work.
- Indulge in any **illegal activities** etc.
- **Past record** with other professionals.

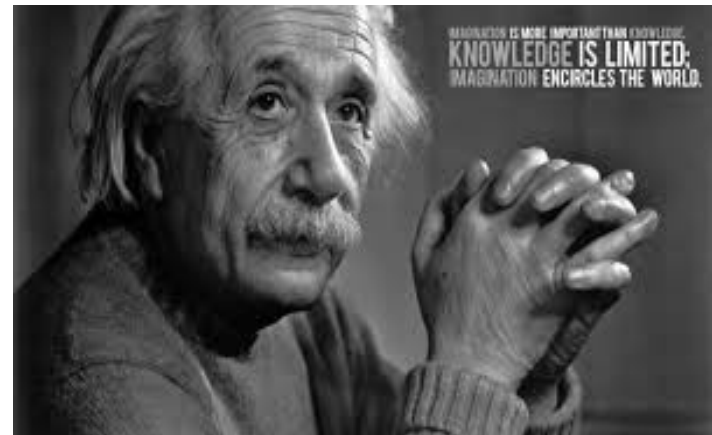


ELEMENTS OF SYSTEM OF QC

3. Acceptance & Continuance of Client Relationships & Specific Engagements

As regard adjudging by the firm of its “own capability”, the firm has to make sure that, whether it has:

- **Desired knowledge** of relevant industry.



- **Experienced personnel**, who have got knowledge of relevant regulatory or reporting requirements.



- **Sufficient personnel** with the necessary capabilities & competence.



- **Capability to complete** the assignment & issue report within given timeframe.

ELEMENTS OF SYSTEM OF QC

3. Acceptance & Continuance of Client Relationships & Specific Engagements

P&P on the Continuance of the engagement & the client relationship should also address the matters as regard **declining of engagement or withdrawing from the engagement**. In that circumstances, the firm's P&P should address the issues like:

- At which level of the client's organisation, the matter of decline/withdrawal has to be communicated?
- Whether there is any legal requirement to report the matter to any regulatory authority?

Document the significant issues, consulta conclusions & the basis for accepting/reje continuation with the client.



ELEMENTS OF SYSTEM OF QC

4. Human Resources

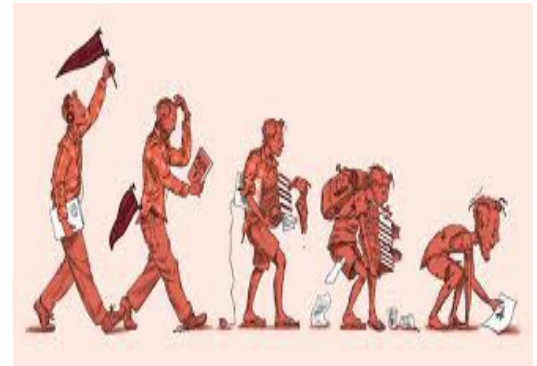
The firm should establish P&P to provide reasonable assurance that:

➤ It has sufficient personnel with the

Capabilities

Competence

Commitment to ethical principles



Required to perform engagement as per professional standards to:

Enable the firm or engagement partner to issue reports.



ELEMENTS OF SYSTEM OF QC

4. Human Resources

Such P&P address the following issues:

- **Recruitment policies;**
- Performance evaluation (Feedback system);
- **Establish Capabilities & Competence judgment procedures of personnel;**
- Career development;
- **Promotion policies;**
- Compensation policies; &
- **Estimation of personnel needs**



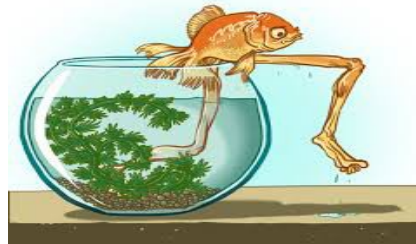
ELEMENTS OF SYSTEM OF QC

4. Human Resources

The Capabilities & Competence are developed through:

- Professional **education**
- Continuing professional development (**CPE**), including training

- Work **experience**



- **Coaching** by senior partners of the firm
- SQC-1 has also emphasis on the matter th

“Where internal technical & training are unavailable, the firm may use a qualified external person for that purpose.”





ELEMENTS OF SYSTEM OF QC

4. Human Resources

Assignment of Engagement Teams

The firm should assign responsibility for each engagement to an “**ENGAGEMENT PARTNER (EP)**” .
The firm should establish the P&P requiring that:

- 1) The Identity & Role of EP are communicated to the key members of the client’s management;
- 2) The EP has the appropriate capabilities, competence, authority & time to perform the role;
- 3) The responsibilities of the EP are clearly defined & communicated to that partner.
- 4) The EP get the capable staff with necessary capabilities & competence.



THIS TIME IT'S
PERSONAL



ELEMENTS OF SYSTEM OF QC

5. Engagement Performance

This section of the SQC-1 emphasis on establishment of P&P by the firm which should address the following matters:

- **How the assignment is to be performed?**
- How engagement team would be briefed a objectives of the assignment to be achieved?
- **How to supervise & Review the work performed?**
- When & how to take Consultation, in case it requires to resolve the complicated issues?
- **How to resolve the difference of opinion?**



ELEMENTS OF SYSTEM OF QC

5. Engagement Performance

Difference of opinion could be exist between:

- ❑ Engagement partner & **Reviewer**;
- ❑ Engagement partner & **Quality Control Reviewer**
- ❑ Engagement partner & **Audit staff**
- ❑ matter is resolved.



- Engagement partner & **Independent consultants.**



In that case it is **mandatory** as per SQC-1 to document those matters, where the **difference of opinion exist & firm should not issue report until**



ELEMENTS OF SYSTEM OF QC

5. Engagement Performance

Other matters to be taken care of includes:

➤ Engagement of Quality Control Reviewer (QCR): The P&P in this regard should address the issues like

❑ How to appoint QCR ?

❑ What precautions to be taken when

❑ Who should be QCR? I.e. Internal **individual?**

❑ Decide about the **NET*** of his Review.

❑ What should be the contents of QCR's Report?

• *Nature, Timing & Extent.*



CR?



ELEMENTS OF SYSTEM OF QC

5. Engagement Performance

Other matters to be taken care of includes:

- **Assembly of Final Engagement Files**: The P&P of the firm ensure the assembly of engagement files after the issue of engagement reports. Ordinarily **within 60 days** after the date of the auditor's report this work should be completed.
- **Confidentiality, Safe Custody, Integrity, Accessibility & Retrievability of Engagement Documentation**: The P&P of the firm should ensure that the confidentiality of information as contained in the "Engagement Documentation" must be maintained. The firm must be able to demonstrate that the confidentiality of information as contained in the "Engagement Documentation" must be maintained. The firm must be able to demonstrate that the confidentiality of information as contained in the "Engagement Documentation" must be maintained.



5. Engagement Performance



Other matters to be taken care of includes:

- **Retention of Engagement Documents**: The P&P of the firm should ensure that engagement documents should retain for a period **sufficient to meet the needs of the firm** or **as required by law or regulation**.

SQC-1, in this regard says that “The retention period ordinarily is **no shorter than 10 years** from the date of the auditor’s report, in case of Audit engagement.”

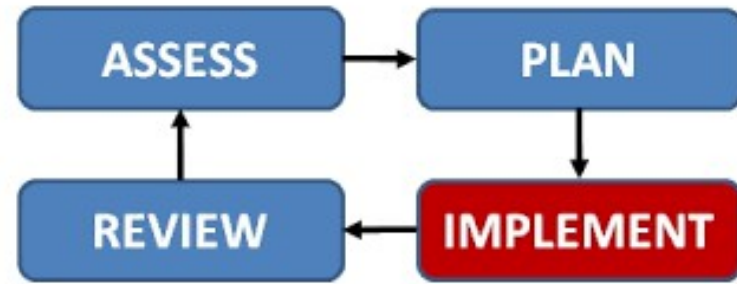
Unless otherwise specified by law or regulation, engagement documentation is the property of the firm

ELEMENTS OF SYSTEM OF QC

6. Monitoring

The firm should establish P&P to ensure that the System of QC are :

- **Relevant**
- Adequate
- **Operating Effectively &**
- Complied with in practice by firm & its personnel.



ELEMENTS OF SYSTEM OF QC

6. Monitoring

Ongoing consideration & evaluation of the system of QC includes matters such as:

- Analysis of new developments in professional standards.
- Determination of corrective actions to be taken & improvements to be made.
- Communication to appropriate firm personnel of weaknesses identified in the system.
- Follow-up by appropriate personnel of the firm to make sure the modifications are made in a timely manner.



ELEMENTS OF SYSTEM OF QC

6. Monitoring

Documentation



Establish the P&P requiring appropriate documentation to provide evidence of the operation of each element of its system of Quality Control, I.e.

1. Leadership responsibilities for quality within the firm;

2. Ethical Requirements

3. Acceptance & continuance of client relationships

4. Human Resources (HR).



5. Engagement Performance.

6. Monitoring.

7. Documentation



Thanks.
Jinesh Mehta
FCA, CISA.

