

# **Standard on Quality Control (SQC) 1 and Audit Reporting**

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

**July 11, 2022**

# Introduction

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## ▶ Purpose

To establish standards & provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial statements and for other assurance and related services engagements.

- SQC 1 is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and any other relevant pronouncement of the Institute and relevant legal or regulatory requirement.
- Applies to all firms

# Elements of a System of Quality Control

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**1**

Leadership responsibilities for quality within the firm

**2**

Ethical requirements

**3**

Acceptance and continuance of client relationships and specific engagements

**4**

Human resources

**5**

Engagement performance

**6**

Monitoring

# Leadership responsibilities for quality within the firm

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Influence the internal culture of the firm

Design policies and procedures to promote an internal culture

Assume ultimate responsibility for the firm's system of quality control.

# Policies and Procedures

<b>Ultimate responsibility of the Managing Partner</b>	<ul style="list-style-type: none"><li>• Design, implementation and operating effectiveness of quality control</li><li>• Educating professional personnel</li></ul>
<b>Commercial considerations do not override the quality</b>	<ul style="list-style-type: none"><li>• MP to continually evaluate client relationships and specific engagements</li><li>• Emphasising to personnel that fee considerations and scope of service should not infringe quality control</li></ul>
<b>Responsibility assigned to appropriate personnel</b>	<ul style="list-style-type: none"><li>• MP to designate a Quality Control Partner</li></ul> <p><i>In case of sole proprietorship, sole practitioner is the Quality Control partner</i></p>
<b>Performance evaluation, compensation and advancement</b>	<ul style="list-style-type: none"><li>• Compensation system to take into consideration firm's feedback and reward partners and personnel for<ul style="list-style-type: none"><li>- timely identification of significant and emerging accounting and auditing issues</li><li>- consultation with Firm experts</li></ul></li></ul>
<b>Allocation of appropriate resources for quality control</b>	<ul style="list-style-type: none"><li>• Designated QC to be provided sufficient time and resources</li><li>• QC documentation to be provided to personnel</li><li>• Timely review of QC policies</li></ul>

# How to communicate policies?

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- ▶ Training Seminars
- ▶ Meetings
- ▶ Formal or informal dialogue
- ▶ Mission Statements
- ▶ Newsletters
- ▶ Briefing Memoranda
- ▶ Through partner and staff appraisal procedures

# Ethical Requirements

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Design policies & procedures to provide reasonable assurance that

Firm and its personnel comply with relevant ethical requirements

Conceptual approach to independence for assurance engagements including aspects such as threats to independence, accepted safeguards and the public interest

# Fundamental Principles of Professional Ethics

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- 1 Integrity**
- 2 Objectivity**
- 3 Professional competence and due care**
- 4 Confidentiality**
- 5 Professional behavior**



# Threats to Independence

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## **Self-interest Threat**

Auditing firm, partner or associate has financial interest in an audit client

## **Self-review Threat**

Member of audit team was previously a director or senior employee of the client

## **Advocacy Threat**

When an auditor promotes client's opinion

## **Familiarity Threat**

Auditor forms relationships with the client and ends up being sympathetic to the interests of the clients.

## **Intimidation Threat**

Auditor is deterred from acting objectively with an adequate degree of professional skepticism.

# Safeguards against Independence threats

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- ▶ Involving an additional partner who is not associated with the audit engagement
- ▶ Rotation of senior partners or professional staff
- ▶ Discussing independence issues with the auditee's audit committee
- ▶ Withdrawing an individual from an audit, when that individual's economic or financial interests create a threat to independence
- ▶ Withdrawal from an engagement if safeguards to reduce threats to independence to an acceptable level cannot be applied
- ▶ Annual written confirmation, of compliance with firms policies and procedures on independence
- ▶ Procedures for confirming the independence of another Firm that performs part of the engagement

# Policies and Procedures

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<b>Personnel adherence to ethical requirements</b>	<ul style="list-style-type: none"><li>• MP to designate Independence and Ethics partner</li><li>• Establishing system for identifying all services performed for all clients</li><li>• Regularly consulting ICAI’s journal and website</li><li>• Ensuring training attendance</li></ul> <p><i>In case of sole proprietorship, sole practitioner is the Quality Control partner</i></p>
<b>Establish procedures to communicate independence requirements</b>	<ul style="list-style-type: none"><li>• Informing personnel of their responsibilities</li><li>• Providing frequent reminders</li></ul>
<b>Establish procedures to identify and evaluate possible threats to independence</b>	<ul style="list-style-type: none"><li>• Partner to consider relevant information about client engagements</li><li>• Providing training to partners and professional staff</li><li>• Accumulating and communicating information</li><li>• Personnel to promptly report threats to independence</li><li>• Communicating identified breaches and corrective actions</li><li>• Periodic review of unpaid fees from clients</li><li>• Documenting the threats</li></ul>

# Policies and Procedures

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<b>Withdraw if safeguard to reduce threats to independence to an acceptable level cannot be applied</b>	<ul style="list-style-type: none"><li>• Consulting within firm and legal counsel</li></ul>
<b>Obtain written confirmation at least annually of compliance on independence</b>	<ul style="list-style-type: none"><li>• Review representations and resolve reported exceptions</li></ul>
<b>Establish procedures for confirmation of independence of another firm performing part of engagement</b>	<ul style="list-style-type: none"><li>• Using practice aids prescribing form and content of independence representations</li></ul>

# Acceptance and Continuance of Client Relationships and Specific Engagements

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Design policies and procedures to provide reasonable assurance that it will undertake or continue relationships and engagements only where it :

Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity

Is competent to perform the engagement and has the capabilities, time and resources to do so

Can comply with the ethical requirements

# Client Acceptance and Continuance

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The Firm should obtain such information as it considers necessary:

before accepting an engagement with a new client

when deciding whether to continue an existing client relationship and/or engagement

when considering acceptance of a new engagement with an existing client

Where issues have been identified and firm decides to accept or continue the client relationship/ specific engagement, it should document how the issues were resolved

# Policies and Procedures

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<b>Evaluate factors that have a bearing on management's integrity and consider the risk</b>	<ul style="list-style-type: none"><li>• Inform firm personnel of firm's policies</li><li>• Obtain and evaluate relevant information (eg. Nature &amp; purpose of services to be provided, identity of client's principal owners, internet searches, third party inquiry)</li><li>• Communicate with predecessor auditor</li><li>• Conduct background checks</li></ul>
<b>Evaluate whether the engagement can be completed with professional competence</b>	<ul style="list-style-type: none"><li>• Evaluate if sufficient personnel are in place</li><li>• Specifying conditions triggering to re-evaluate client</li></ul>
<b>Obtain an understanding with the client regarding the services to be performed</b>	<ul style="list-style-type: none"><li>• Written engagement letter</li></ul>
<b>Establish procedures on withdrawal from an engagement</b>	<ul style="list-style-type: none"><li>• Discussion with appropriate level of client's management</li></ul>
<b>Document how issues relating to acceptance or continuance of client relationships and specific engagements were resolved</b>	<ul style="list-style-type: none"><li>• Document in a memorandum to the engagement working papers file the significant issues, consultations, conclusion and the basis for conclusions</li></ul>

# Human Resources

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The Firm's policies and procedures should be designed to provide it with reasonable assurance that

- ✓ it has sufficient personnel with the capabilities and competence,
- ✓ the personnel are committed to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements
- ✓ enable the Firm or engagement partners to issue reports that are appropriate in the circumstances



# Human Resources

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The Firm's policies and procedures should be designed to provide it with reasonable assurance

➔ Recruitment

➔ Performance Evaluation

➔ Capabilities

➔ Competence

➔ Career development

➔ Promotion

➔ Compensation

➔ Estimation of personnel needs

# Policies and Procedures

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<b>Personnel who are hired possess the characteristics that enable them to perform competently</b>	<ul style="list-style-type: none"><li>• Designating an individual in firm to be responsible</li><li>• Establishing understanding among the partners about the qualifications, attributes, achievements and experiences</li><li>• Setting guidelines for hiring experienced personnel</li></ul>
<b>Determine capabilities and competencies required for an engagement, including those required of the engagement partner</b>	<ul style="list-style-type: none"><li>• Role of firm's system of QC for ensuring integrity</li><li>• Industry in which the client operates</li><li>• Professional standards applicable</li><li>• Skills that contribute to sound professional judgement</li></ul>
<b>Determine the capabilities and competencies possessed by personnel</b>	<ul style="list-style-type: none"><li>• Establishing criteria for evaluating personnel characteristics</li><li>• Annual evaluation of personnel</li></ul>
<b>Assign the responsibility for each engagement to an engagement partner</b>	<ul style="list-style-type: none"><li>• Communication of identity and role of partner to client</li><li>• Monitoring the workload and availability of partners</li></ul>

# Policies and Procedures

<b>Assign personnel (including partners) based on the knowledge, skills, and abilities required in the circumstances and the nature and extent of supervision needed</b>	<ul style="list-style-type: none"><li>• Assigning personnel based on engagement type, size, complexity</li><li>• Designating partner to be responsible for partner manager assignments</li><li>• MP approval in case of high-risk engagements</li></ul>
<b>Personnel participate in general and industry-specific continuing professional education and development (CPED) activities that enable them to accomplish assigned responsibilities</b>	<ul style="list-style-type: none"><li>• Assigning responsibility to partner to maintain CPED</li><li>• Encouraging participation at each level</li><li>• Communicating and distributing to personnel changes in accounting, auditing and QC standards</li></ul>
<b>Personnel selected for advancement have the qualifications to fulfill the responsibilities they will be called on to assume</b>	<ul style="list-style-type: none"><li>• Assigning responsibility to partner to establish criteria for evaluating personnel, inform personnel on criteria for advancement</li><li>• Counselling personnel on progress and career opportunities</li><li>• Evaluating partners periodically by counselling, peer evaluation or self appraisal</li></ul>

# Engagement Performance

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Design policies & procedures to provide reasonable assurance that

Engagements are performed in accordance with professional standards and regulatory and legal requirements

Firm or partner issues reports that are appropriate in the circumstances

# Supervision

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Tracking the progress of the engagement

Considering the capabilities and competence of individual members of the engagement team

Addressing significant issues arising during the engagement

Identifying matters for consultation or consideration by more experienced engagement team members

# Considerations for a Reviewer

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- ➔ Work is performed in accordance with standards and requirements
- ➔ Significant matters are raised for further consideration
- ➔ Appropriate consultations and conclusion are documented
- ➔ Need to revise the nature, timing and extent of work performed
- ➔ Work performed supports the conclusion and is documented
- ➔ Evidence obtained is sufficient and appropriate
- ➔ Objectives of engagement procedures have been achieved

# Consultation

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Establish policies & procedures to provide reasonable assurance that

Appropriate consultation takes place on difficult or contentious matters

Sufficient resources are available to enable appropriate consultation to take place

Nature and scope of such consultations are documented

Conclusions resulting from consultations are documented and implemented

# Consultation

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- ▶ Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm
  
- ▶ A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by
  - other firms, or
  - professional and regulatory bodies
  
- ▶ The documentation is sufficiently complete and detailed to enable an understanding of:
  - The issue on which consultation was sought; and
  - The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.



# Engagement Quality Control Review

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Establish policies & procedures establish policies and procedures for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report.

Such policies and procedures should:

Require an engagement quality control review for all audits of financial statements of listed entities

Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed

Require an engagement quality control review for all engagements meeting the criteria established

# Engagement Quality Control Review

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- The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.
- The firm should establish policies and procedures setting out :
  - The nature, timing and extent of an engagement quality control review
  - Criteria for the eligibility of engagement quality control reviewers
  - Documentation requirements for an engagement quality control review
- The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through :
  - The technical qualifications required to perform the role, including the necessary experience and authority; and
  - The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

# Engagement Quality Control Review

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- The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. The engagement quality control reviewer
  - ✓ Is not selected by the engagement partner
  - ✓ Does not otherwise participate in the engagement during the period of review
  - ✓ Does not make decisions for the engagement team
  - ✓ Is not subject to other considerations that would threaten the reviewer's objectivity

Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews.

# Policies and Procedures

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<b>Planning for engagements meets professional, regulatory, and the Firm's requirements</b>	<ul style="list-style-type: none"><li>• Maintaining and providing personnel with the Firm's practice aids</li></ul>
<b>Engagement is performed, supervised, documented, reported and communicated in accordance with the requirements of professional standards, applicable regulators, and the Firm</b>	<ul style="list-style-type: none"><li>• Providing adequate supervision</li><li>• Requiring that a written work program be used</li><li>• Addressing significant issues and newly identified risks</li><li>• Requiring engagement documentation</li></ul>
<b>Qualified engagement team members review work performed by other team members on a timely basis</b>	<ul style="list-style-type: none"><li>• All reviewers have appropriate experience, competence, and responsibility</li></ul>
<b>Engagement teams complete the assembly of final engagement files on a timely basis</b>	<ul style="list-style-type: none"><li>• completing the assembly of final engagement files in accordance with professional standards and applicable regulatory requirements</li></ul>

# Policies and Procedures

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**Maintaining the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation**

- Establishing and applying controls
  - to clearly determine when and by whom engagement documentation was prepared and reviewed
  - prevent unauthorized changes to the engagement documentation
  - Allow access to the engagement documentation
  - Protect the integrity of the information
- Requiring the use of passwords by engagement team members and data encryption to restrict access
- Implementing appropriate back-up routines

**The Firm retains engagement documentation for a period of time sufficient to meet the needs of the Firm, professional standards, laws, and regulations**

- Enable the retrieval of, and access to, the engagement documentation during the retention period
- Provide record of changes made to engagement documentation after the assembly of engagement files
- Enable authorized external parties for QC

# Policies and Procedures

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**Dealing and resolving differences of opinion, documents and implements conclusions reached, and does not release the report until the matter is resolved**

- Requiring that all differences of professional judgment among members of an engagement team be resolved by the engagement and the QC partners and conclusion is appropriately documented

# Monitoring

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Establish policies and procedures designed to provide reasonable assurance that

policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice

Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements

# Purpose

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Adherence to professional standards and regulatory and legal requirements

Appropriate designing and effectively implementation of the quality control system

Firm's quality control policies and procedures have been appropriately applied



# Policies and Procedures

<b>Assign responsibility for monitoring process</b>	<ul style="list-style-type: none"><li>• MP designates QC partner</li><li>• Identify need to<ul style="list-style-type: none"><li>- revise policies and procedures if ineffective or inappropriately designed,</li><li>- Improve compliance with firm policies related to QC</li></ul></li></ul>
<b>Perform monitoring procedures sufficiently comprehensive to assess compliance with all applicable professional standards and QC policies</b>	<ul style="list-style-type: none"><li>• Assign partner to perform annual inspection</li><li>• Decide period to retain inspection documentation</li><li>• Reviewing resolution to matters reported and recommended corrective actions</li><li>• Selecting sample of engagements for review</li><li>• Prepare summary inspection report for partner group</li></ul>
<b>Communication of</b> <ul style="list-style-type: none"><li>- <b>deficiencies noted and recommendations for appropriate remedial action</b></li><li>- <b>Results of monitoring of its QC system process to firm personnel at least annually</b></li></ul>	<ul style="list-style-type: none"><li>• Discussion of observations of inspection with partner</li><li>• Preparing summary report with recommended changes</li><li>• Reviewing recommended corrective actions and reaching final conclusions</li><li>• Communication to all personnel deficiencies noted</li></ul>

# Policies and Procedures

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**Preparing and retaining appropriate documentation providing evidence of operation of each element of its system of QC**

- Designing summary monitoring report to include
  - procedures for selecting completed engagements to be inspected
  - record of the evaluation
  - identification of deficiencies noted and further action

**Strive to get peer reviewed by an external reviewer under “Peer Review” process**

- Voluntarily offer for peer review by application to Peer Review Board of ICAI

# Complaints and Allegations

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- ▶ The firm should establish policies and procedures to provide it with reasonable assurance that it deals appropriately with:
  - Complaints and allegations that the work performed fails to comply with professional standards and regulatory and legal requirements.
  - Allegations of Non-compliance with firm's quality control system.
  
- ▶ Investigation of complaints and allegations should be done by:
  - ✓ it has sufficient personnel with the capabilities, competence, and commitment
  - ✓ A suitably qualified external person
  - ✓ Another firm

# Recommendations for deficiency

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The firm's evaluation of deficiency should result in the following recommendations:

- Taking appropriate remedial action
- Communication of findings to those responsible for training and professional development
- Changes to quality control policies and procedures
- Disciplinary action against those who fail to comply with policies and procedures

# Reinforcement of firm policies and procedures

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The firm's policies and procedures should emphasize the fundamental principles to reinforced in particular by:



# What Next?

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- ▶ Assess QC readiness
  - ▶ Implementation Guide to QC 1
    - ▶ Illustrative Annual Firm Independence Confirmation
    - ▶ Illustrative Independence Policies
    - ▶ Illustrative Client/Engagement Acceptance and Continuance Form
    - ▶ Illustrative Engagement Planning Memorandum
    - ▶ Illustrative Engagement Summary Memorandum
    - ▶ Illustrative Firm Quality Control Inspection Checklist
  - ▶ Compliance with the Code of Ethics
  - ▶ Consult
    - ▶ Any elements of the QC function
    - ▶ Establishing QC function for sole proprietorship/small partnership firms
- ▶ Develop QC Framework
- ▶ Communicate to all personnel
- ▶ Monitor implementation – initial and on-going



# Questions

# Code of Ethics

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- ▶ **PART–A**
- ▶ **CHAPTER-1 GENERAL APPLICATION OF THE CODE**
- ▶ **CHAPTER-2 PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**
  - ▶ 200 Introduction
  - ▶ 210 Professional Appointment
  - ▶ 220 Conflicts of Interest
  - ▶ 230 Second Opinions
  - ▶ 240 Fees and Other Types of Remuneration
  - ▶ 250 Marketing Professional Services
  - ▶ 260 Gifts and Hospitality
  - ▶ 270 Custody of Client Assets
  - ▶ 280 Objectivity – All Services
  - ▶ 290 Independence – Assurance Engagements
  - ▶ **APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS**
    - ▶ 290.100 Introduction
    - ▶ 290.103 Financial Interests
    - ▶ 290.105 Provisions Applicable to All Assurance Clients
    - ▶ 290.112 Provisions Applicable to Financial Statement Audit Clients
    - ▶ 290.121 Provisions Applicable to Non-Financial Statement Audit Assurance Clients
    - ▶ 290.125 Loans and Guarantees
    - ▶ 290.131 Close Business Relationships with Assurance Clients
    - ▶ 290.134 Personal Relationships
    - ▶ 290.142 Employment with Assurance Clients
    - ▶ 290.145 Recent Service with Assurance Clients
    - ▶ 290.148 Serving as an Officer or Director on the Board of Assurance Clients
  - ▶ **LONG ASSOCIATION OF SENIOR PERSONNEL WITH ASSURANCE CLIENTS**
  - ▶ **FEES AND PRICING**
- ▶ **CHAPTER-3 PROFESSIONAL ACCOUNTANTS IN SERVICE**



# Code of Ethics

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- ▶ **PART-B**
  - ▶ **CHAPTER-4 ACCOUNTING AND AUDITING STANDARDS**
    - Authority attached to the Documents Issued by the Institute
    - Accounting Standards and Quality Control and Engagement Standards
    - Accounting Standards
  - ▶ **CHAPTER-5 THE CHARTERED ACCOUNTANTS ACT, 1949**
    - ▶ **FIRST SCHEDULE**
      - ▶ PART-I Professional Misconduct in relation to Chartered Accountants in practice
      - ▶ PART-II Professional Misconduct in Relation to Members of the Institute in Service
      - ▶ PART-III Professional Misconduct in Relation to Members of the Institute generally
      - ▶ PART-IV Other Misconduct of Members in General
    - ▶ **SECOND SCHEDULE**
    - ▶ **PART-I Professional Misconduct in relation to chartered accountants in Practice**
      - ▶ Clause-1 Discloses information acquired without client's consent
      - ▶ Clause-2 Certifies/submits report without examining the related records
      - ▶ Clause-3 Permits to use name for vouching the accuracy of future contingent earnings
      - ▶ Clause-4 Opines on Financial Statement where substantial interest involved
      - ▶ Clause-5 Fails to disclose any material fact in Financial Statement
      - ▶ Clause-6 Fails to report a known material misstatement appearing in Financial Statement
      - ▶ Clause-7 Performs professional duties without due diligence/grossly negligent
      - ▶ Clause-8 Fails to obtain sufficient information for expressing an opinion
      - ▶ Clause-9 Fails to invite attention to any material departure from the generally accepted procedure of audit
      - ▶ Clause-10 Keeps client's money without opening separate bank account
    - ▶ **PART- II Professional Misconduct of Members of the Institute generally**
    - ▶ **PART-III Other Misconduct in relation to members of the Institute generally**
  - ▶ **CHAPTER-6 COUNCIL GUIDELINES**
  - ▶ **CHAPTER-7 SELF REGULATORY MEASURES RECOMMENDED BY THE COUNCIL**
-