ELEMENTS OF SSQC 1

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

The leadership of a public accounting firm is one of the most important drivers to raise the quality of the firm's work. The key to achieving quality in every engagement of the firm is premised upon a strong commitment to quality control by the firm's leadership. In view of the paramount importance of the leadership, the element of "Leadership Responsibilities for Quality within the Firm" under Singapore Standard on Quality Control 1 (SSQC 1) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* requires every firm to establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing the firm's engagements. Such policies and procedures shall require the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's quality control system.

To ensure that high quality work is delivered by a public accounting firm, it is imperative that the firm's leadership understands the importance of a quality culture and appreciates how such a culture can help put the firm on the path to success. This underlying culture is an integral aspect of the firm's quality control system. Should the firm's leadership falter in its commitment to quality control, it is highly probable that the firm's quality

THE HIGH LEVEL OF COMMITMENT TO QUALITY CONTROL BY THE FIRM'S LEADERSHIP WILL ALSO LEAD TO THE SUCCESSFUL AND EFFECTIVE IMPLEMENTATION OF THE FIRM'S QUALITY CONTROL SYSTEM AND ENSURE THAT THE FIRM NOT ONLY SURVIVES BUT THRIVES IN THE LONG RUN.

control system will eventually be sub-optimal.

There are two major components under "Leadership Responsibilities for Quality within the Firm" – Tone at the Top, and Assignment of Operational Responsibility.

A TONE AT THE TOP

Positioned at the top of a public accounting firm's hierarchy, the partners' attitudes, behaviours and messages to their personnel constitute the "tone at the top". This tone should convey strong support for a quality control culture. It is expected that the partners actively champion and shape a quality-oriented culture within the firm and demonstrate an unshakeable commitment that quality cannot be compromised in the performance of all engagements of the firm.

Undeniably, commercial considerations are critical to the ongoing success of the firm but they cannot come at the expense of quality. Therefore, the firm's business strategy must be subject to the overriding requirement for the firm to achieve quality in all its engagements. The pursuit of commercial gains should not, at any time, lead to poor quality of work performed. While the partners are responsible for achieving growth in the firm's revenue and profits, the firm's leadership needs to be cognizant that it should not compromise the quality of the firm's engagements.

In reality, partners are often faced with the dilemma of accepting new clients or retaining existing clients but do not have the right level of resources to execute the audits properly. The dilemma is compounded when the audits are complex in nature and are infested with many issues but the partner is expected to bring in the fees. The tough question then looms large – "To accept or not accept?" or "To retain or not retain?" – as the case may be. This is the time when the leadership which supposedly upholds quality is put to a serious test. Leadership that embraces quality would back the partner's decision of not accepting or retaining the engagement, if that is the decision made with proper justification. Should the leadership team conclude that the engagement should be accepted or retained for strategic reasons, it should not then frown upon the huge write-off arising from the engagement, nor put pressure on the partner to deliver a good recovery. In short, adequate resources should be committed to executing the audit even though the fee does not commensurate with that level of commitment. Under no circumstances should quality be compromised.

Establishing a culture of quality by the firm's leadership is a continuous and consistent endeavour. There must be clear, consistent and frequent messages from all levels of the firm's management to emphasise quality in the firm's operations or processes. Such messages could be communicated through a variety of means such as the firm's mission statement, monthly meetings, quality control policies and procedures, training and induction programme for new personnel. One of the common practices is to include a discussion on the quality of engagements as a standing agenda item in every internal management meeting of the firm. This will prevent and minimise the tendency for internal management to be fixated on financial indicators of the firm without considering the critical aspects of quality control. Likewise, the minutes of such meetings would be excellent post-mortem data to facilitate subsequent followup actions for improving quality control.

Apart from the above, the quality

culture should also tie in closely with the performance evaluation, and compensation and promotion of the personnel. The performance evaluation should include an appraisal of the individual's quality of work performed, as well as demonstrated commitment to quality control. If the firm has more than one partner, the respective partners' compensation and performance evaluation should be linked to the quality of their work. Equity ownership of the firm by the respective partners should not be the sole determinant for the level of compensation. Instead, an assessment of the partners' performance should include the following criteria relating to the quality of his or her work:

- The results of review of monitoring programme (including ACRA's practice review, network firm's review, internal review or others); and
- Recorded time involvement in the engagements and the effectiveness of time incurred on the engagements

B ASSIGNMENT OF OPERATIONAL RESPONSIBILITY

A public accounting firm's leadership, typically the firm's partners, has ultimate responsibility for the firm's quality control system and is also responsible for designing and defining the firm's operating and reporting structure. The goal to develop the firm's culture to be quality conscious is not achievable overnight, hence, it is crucial that the partners identify internal champions to continuously develop and enhance the firm's quality control system. To achieve this goal, the partners could assign the operational responsibility of the quality control system to suitably qualified personnel (referred to as Quality Control Personnel or QCP) who possess sufficient and appropriate level of experience, ability and authority. Nevertheless, the partners should be aware that their responsibilities on the quality control system cannot be absolved by virtue of delegation of the operational responsibility.

The evaluation of the suitability of the QCP could be based on the following:

- Years of experience in a public accounting firm;
- Level of competence on quality control (for example, completion of training course on SSQC 1);
- Level of authority within the firm;
- Attitude and commitment towards quality control; and
- Adequacy of time commitment for the assigned role

The QCP generally would be a partner or director of the firm with adequate knowledge of quality control standards. In addition, the QCP should possess exemplifying values of quality and devote sufficient time to fulfil the assigned responsibility. The firm's client and engagement allocation decision should take into consideration the responsibility of the QCP to ensure that the QCP has adequate time to perform his or her assigned duties as well as his or her engagements.

The assignment of the QCP should be formally documented and reviewed on a periodic basis to determine if any change of the QCP is required. The firm's managing partner or managing board of partners should approve the assignment and the QCP should report to the partners at least annually. In addition, the QCP should also not be responsible for the growth and commercial success of the firm as such responsibility may compromise the objectivity of the QCP and increase the possibility that quality control matters may be inappropriately affected by commercial considerations. If the development of quality control policies and procedures of the firm is outsourced to an external consultant, the QCP will actively manage the development process with the consultant.

Upon assignment, the scope of the QCP may include the following:

- Development and implementation of quality control policies and procedures;
- Continuous update of quality control policies and procedures, taking into consideration the changes in professional standards or regulations;
- Allocation of sufficient resources and time for development and implementation;
- Involvement of relevant parties in the firm for feedback and support in development and implementation

CONCLUSION

With a public accounting firm's leadership placing emphasis on quality in the firm's day-to-day management and operations, the partners will be able to cascade down their strong belief in quality to all personnel of the firm. The high level of commitment to quality control by the firm's leadership will also lead to the successful and effective implementation of the firm's quality control system and ensure that the firm not only survives but thrives in the long run. CPA

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