AUDIT QUALITY CONTROL

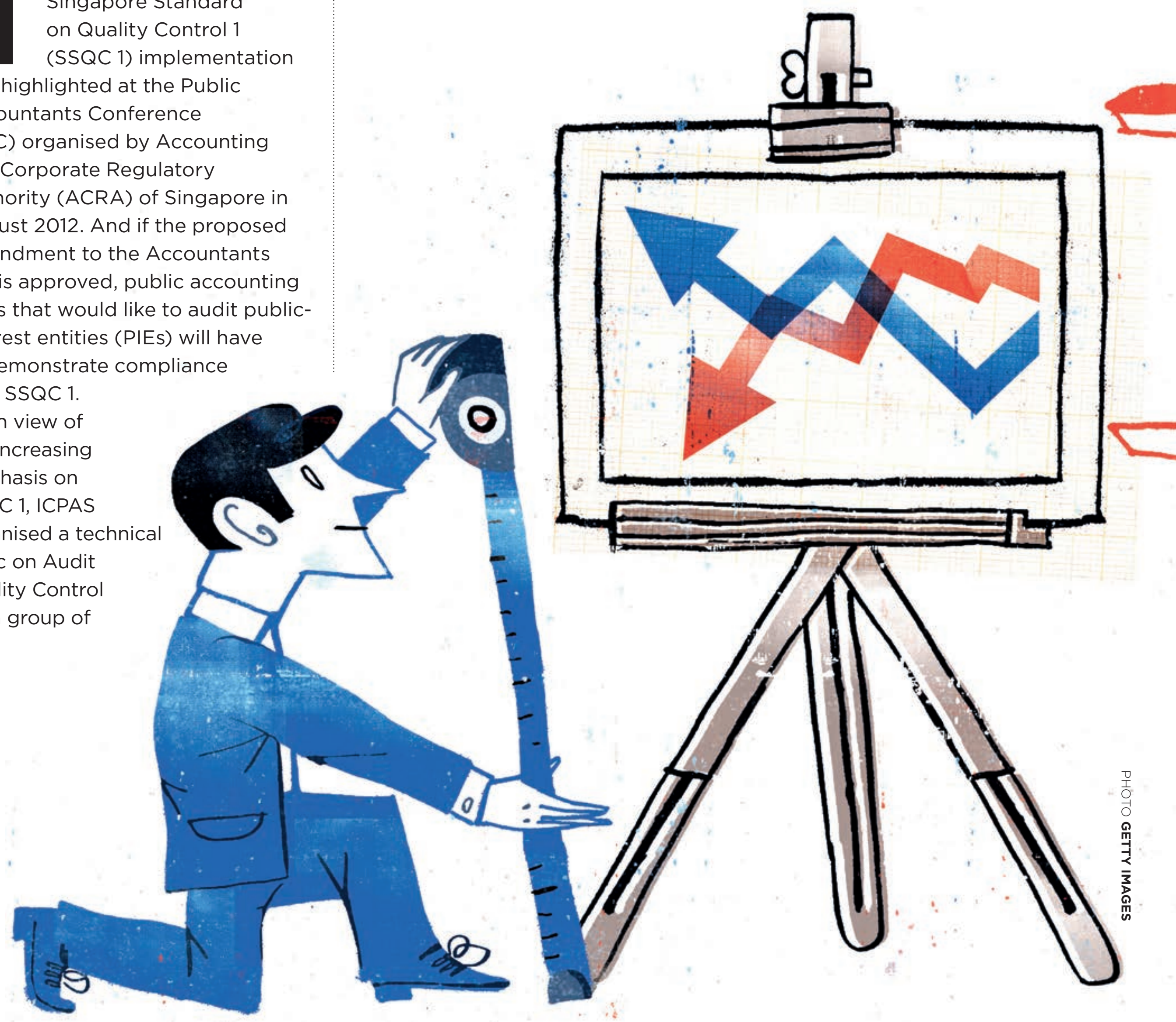
HIGHLIGHTS OF TECHNICAL CLINIC

The importance of Singapore Standard on Quality Control 1 (SSQC 1) implementation was highlighted at the Public Accountants Conference (PAC) organised by Accounting and Corporate Regulatory Authority (ACRA) of Singapore in August 2012. And if the proposed amendment to the Accountants Act is approved, public accounting firms that would like to audit public-interest entities (PIEs) will have to demonstrate compliance with SSQC 1.

In view of the increasing emphasis on SSQC 1, ICPAS organised a technical clinic on Audit Quality Control for a group of practitioners on 26 September 2012. The session was facilitated by experienced practitioner John Lim, Partner, PKF-CAP LLP. Here are some highlights from the technical clinic.

Q Is SSQC 1 solely applicable for big public accounting firms?

A No, this is a misconception. In accordance with SSQC 1, all public accounting firms regardless of



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size are required to comply with SSQC 1. In time to come, the firms that do not audit PIEs may also be subject to review for compliance with SSQC 1 through the practice review programme (PMP). This simply means that the smaller firms will have to implement different policies and procedures to comply with SSQC 1. Embracing the spirit of SSQC 1 is the cornerstone of audit quality, and firms should not adopt a "one-size-fits-all" approach.

Q Is it sensible to require smaller public accounting firms or even sole proprietor firms to comply with SSQC 1? As it is, they are already facing resource constraints. How are they going to implement SSQC 1?

A Smaller firms or even sole proprietor firms still need to have some firm-level quality control policies and procedures to ensure that they issue appropriate engagement reports and comply with professional standards, and legal and regulatory requirements. SSQC 1 does not necessarily require them to implement the same level of sophisticated controls as those in bigger public accounting firms. SSQC 1 is principles-based and therefore, each firm can adopt those quality control policies and procedures which are relevant and applicable to the operating characteristics, nature and size of their practices.

SSQC 1 IMPLEMENTATION SERVES AS A CATALYST FOR THE SOLID FOUNDATION OF QUALITY ON WHICH A FIRM'S GROWTH AND SUSTAINABILITY MAY BE BUILT.

Q Would having a Quality Control Manual (QCM) automatically demonstrate the public accounting firms' compliance with SSQC 1?

A Having a QCM is a good starting point. However, it does not automatically demonstrate that the firms comply with SSQC 1. The firms have to ensure that the quality control policies and procedures in the QCM are effectively adopted and executed with appropriate documentation to demonstrate compliance with SSQC 1. The devil is in the details. More importantly, the QCM should be appropriately customised to suit the operating characteristics, nature and size of each specific firm.

Q How does a firm develop a QCM?

A In light of the resource constraints faced by the smaller public accounting firms, they could leverage on the quality control guides issued by the professional bodies or regulators to develop a QCM which is pragmatic but not excessive. In particular, from October 2012, the Institute of Certified Public Accountants of Singapore (ICPAS) has issued a series of Practice Guides. These Practice Guides, which include illustrative quality control policies and procedures with various practice aid templates, will help the smaller firms in formulating and documenting the quality controls.

Q Leadership is an abstract element. How can a public accounting firm's compliance with this element of SSQC 1 be demonstrated?

A Despite the abstract nature of the leadership element, its compliance can be evidenced by the discussion of quality control matters in the minutes of a firm's internal management meetings. In addition, the firm could incorporate the importance of quality in its mission statement or strategy and also communicate its quality control policies and procedures to the staff when they undergo the induction programme. With these measures in place, a clear message from the top emphasising quality is visible and can be effectively disseminated to all levels of staff at the firm.

Q How can a public accounting firm ensure that its professional staff comply with the ethical requirements?

A The relevant ethical requirements applicable to a public accounting firm are stated in the Code of Professional Conduct and Ethics (the Code) under the Fourth Schedule of the Accountants (Public Accountants) Rules. Regular communication of the ethical requirements under the Code (such as independence and confidentiality) to the firm's professional staff is crucial to instil the right values and behaviour among the staff. Having said that, the firm should also obtain signed independence confirmation and declaration of confidentiality from its professional staff at least annually, and from its new staff, as part of the firm's orientation programme as evidence of such confirmation. A designated senior personnel, such as the practitioner himself, has to monitor the results of such confirmation and declaration to ensure that any threats are promptly identified and addressed. If any significant independence threat is identified, the firm should apply appropriate safeguards to reduce the threat to an acceptable level. For instance, for a sole proprietor firm, if the familiarity threat exists due to the long association of a senior personnel, such as between a practitioner and client, the safeguard review may be required. The safeguard review may include but is not limited to involving a professional public accountant from another firm.

Q What should be done by a public accounting firm prior to its acceptance of a new client? Is it sufficient to merely discuss with the prospective client over the phone and provide a fee quote?

A No, it is clearly not adequate. Firstly, a public accounting firm is required to assess the integrity of a prospective client. Such assessment may include performing background searches by making use of information gathered from discussions with the party who referred the client to the firm, media reports relating to the client, and other relevant and readily available information. Secondly, the firm should ascertain whether it has adequate resources and competence to perform the engagement. Other considerations would be the firm's compliance with the ethical requirements. Additionally, if the new client is served by another existing public accounting firm, the firm should write to the predecessor to find out whether there are any reasons the appointment by the client should not be accepted, in accordance with the requirements stated in the Code. All the aforementioned evaluation should be properly documented with approval by the firm's practitioner before the client is accepted.

Q For an existing client, should there be a process that a public accounting firm

SSQC 1 PRACTICE GUIDES FROM ICPAS

To support SMPs in implementing SSQC 1, ICPAS has developed SSQC 1 Practice Guides on the six elements of SSQC 1.

The SSQC 1 Practice Guides, which include illustrative policies and procedures with various practice templates, will help SMPs in developing and documenting their quality control policies and procedures. The guides are issued in two phases. Phase 1, which kicked off in October 2012, comprises the elements of Human Resources, Acceptance and Continuance of Client Relationships and Specific Engagements and Relevant Ethical Requirements. Phase 2, which will be launched in January 2013, encompasses Leadership Responsibilities for Quality within the Firm, Engagement Performance and Monitoring.

The guides are available in **CD-ROM** and hard copy **Booklet** formats. To order the practice guides, please email us at **QualityAssurance@icpas.org.sg**

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has to adhere to prior to retaining the client?

A Yes, a public accounting firm should perform the client continuance assessment for the following year as soon as the current year's engagement of the client is completed and signed off. In addition to the considerations highlighted in the response for the immediate past question, there are other factors which may preclude the firm from continuing the client engagement. Such factors may include lack of competence of the client, overdue fee, limitation of scope, inadequate resources of the firm or others. If one of these factors is present, the firm should consider whether the factors could be overcome. Otherwise, the firm may have to withdraw from the existing client.

Q A smaller public accounting firm tends to face higher staff attrition. Is it then worth spending time to train the staff and provide performance appraisal given that the staff may leave the firm within a year?

A Providing training and performance appraisal of the staff will inevitably incur additional time and cost, but it could reap many benefits. Specifically, training could equip the staff with relevant knowledge and competence to complete the assigned engagement effectively and efficiently. This would in turn contribute to higher staff morale and motivation, thereby reducing the staff attrition rate.

Q How could a sole proprietor firm possibly implement Engagement Quality Control (EQC) Review? This is viable in big public accounting firms with multiple partners where they could concur on one another's engagement report but in a sole proprietor firm, there is only one person and there is no one else with sufficient authority, experience or knowledge within the firm to concur on his engagement report.

A It is certainly a common practical issue faced by many sole proprietor firms. To resolve this particular issue, a sole proprietor firm could form alliances with other public accounting firms so as to review one another's engagement in the capacity of EQC reviewer. Alternatively, the firm may consider engaging external consultants who are existing or retired practitioners to serve as EQC reviewer for the firm's engagements. The competence, objectivity and independence of the selected EQC reviewer should be properly assessed to ascertain that the EQC reviewer is suitably qualified.

EMBRACING THE SPIRIT OF SSQC 1 IS THE CORNERSTONE OF AUDIT QUALITY, AND FIRMS SHOULD NOT ADOPT A "ONE-SIZE-FITS-ALL" APPROACH.

Q What are the practical solutions for a smaller public accounting firm to implement the SSQC 1 element of monitoring?

A There are various measures for a smaller public accounting firm to implement a monitoring programme to ensure that its system of quality control remains relevant and effective. The firm may consider designating suitably qualified external parties such as other firms (but not EQC reviewer) and professional bodies to support its monitoring process. In particular, the firm may enrol in ICPAS' Quality Assurance Review (QAR) Programme which could support the firm in identifying the potential deficiencies of the engagements and recommending specific action plans to improve the quality of the engagements. The QAR Programme could serve as one of the monitoring controls of the firm. In addition, if the firm belongs to a network of firms, it could also engage practitioners from another firm within the network to inspect and review the firm's selected completed engagements.

Q Will the benefits outweigh the cost of SSQC 1 implementation?

A Yes. In the long run, the benefits of implementing SSQC 1 will far outweigh the cost. Many of the benefits are intangible in nature. For example, effective firm-wide quality control reduces the risks of inappropriate engagement reports issued and therefore reduces the practitioners' exposure to risk of liability. SSQC 1 implementation serves as a catalyst for the solid foundation of quality on which a firm's growth and sustainability may be built. CPA

This article was written by Jason Pang, Quality Assurance Manager, ICPAS.