ELEMENTS OF SSQC 1

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

"Acceptance and Continuance of Client Relationships and Specific Engagements" is one of the six important elements contained within 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*. Chalked to improve quality of work performed by public accounting firms in the audit profession, SSQC 1 puts forth various measures that promote firm-wide quality controls. According to the this element, a public accounting firm is required to establish quality control policies and procedures designed to distance it from engagements that are beyond its competence or expertise. Other than the competence, SSQC 1 places equal emphasis on the firm's compliance with relevant ethical requirements and integrity of the client it serves. SSQC 1 holds that by establishing sound policies and procedures, the firm can exercise greater control and discretion in undertaking or continuing client relationships and specific engagements.

In managing risk exposure of a public accounting firm, assessment of client acceptance and continuance is pivotal. Without established policies and procedures guiding the assessment, the firm may engage with a client that it otherwise would have withdrawn its services from. For example, a client with its ethical practices brought to question may produce unreliable financial reports or other information that the firm could use for its assurance engagement. As the quality of the firm's work is directly influenced by the quality of the furnished information, a public accounting firm risks issuing an inappropriate report, thereby hampering the firm's reputation and even its viability. Well-calibrated client acceptance and continuance assessment is a vital safeguard against possible damage associated with poor quality clients. Under the element of "Acceptance and Continuance of Client Relationships and Specific Engagements", there are three major components – Competency of the Firm, Compliance with Ethical Requirements, and Integrity of the Client.

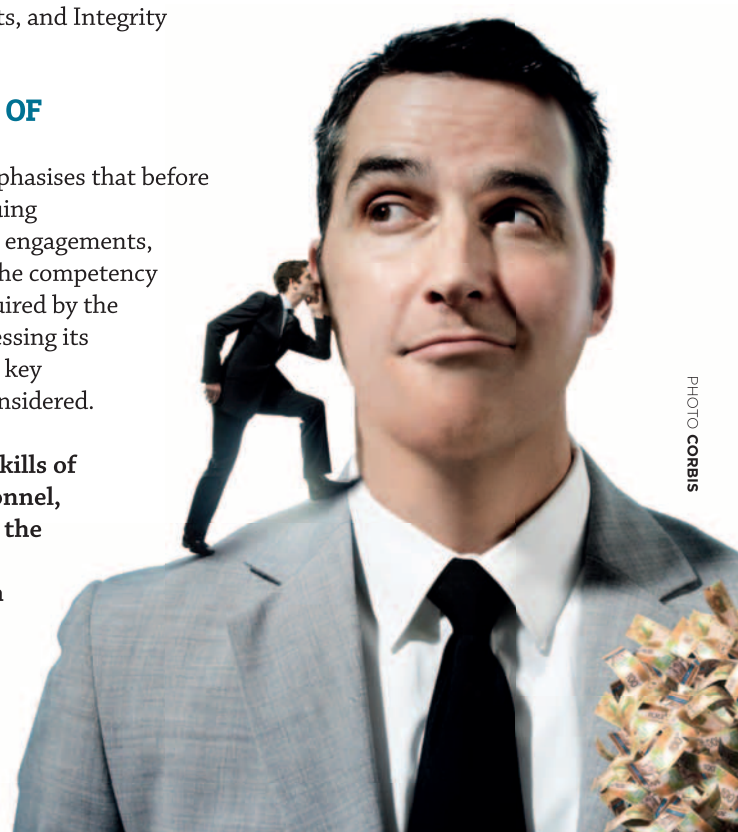
A COMPETENCY OF THE FIRM

This component emphasises that before accepting or continuing with any clients and engagements, a firm should have the competency and capabilities required by the engagement. In assessing its competence, several key factors should be considered. They are:

- a **Expertise and skills of the firm's personnel, as measured by the knowledge and familiarity with the client's industry, standards and reporting requirements;**
- b **Necessity for an expert for complex issues;**
- c **Availability of staff for the engagement;**
- d **Ability to meet reporting deadlines for the engagement; and**
- e **Necessity to rely on, or collaborate with, other auditors to complete the engagement**

B COMPLIANCE WITH ETHICAL REQUIREMENTS

The objective of the second component is to ensure a firm complies with ethical requirements before accepting or continuing with any clients and engagements. Key



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factors to consider include:

a **Actual or potential conflict of interest; and**

b **Presence of identifiable independence issues or threats which cannot be adequately addressed even with proper application of safeguards**

C INTEGRITY OF THE CLIENT

The third component aims to ensure that a firm considers the integrity of a client before accepting or continuing with any clients and engagements. In determining whether a client's integrity is questionable, the following factors must be taken into consideration:

a **The quality of the client's management and those charged with governance; this includes their integrity, competence, business reputation, attitudes towards the internal control environment and view on interpretation of accounting standards;**

b **The nature of the client's operations, including its size, industry, country of operation, sources of financing, fiscal health and viability;**

c **Whether the firm is pressurised by the client, either in terms of unreasonably low fee arrangements or inappropriate limitations in the scope of the work for the engagement; and**

d **Whether there has been any reason to bring the client's practices into question, including suspected or actual fraud, and non-compliance with laws and regulations such as the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act (Cap 65A), the Penal Code (Cap 224) and the Terrorism (Suppression of Financing) Act (Cap 325)**

Integrity Assessment

Investigating the integrity of a prospective client may entail several approaches and avenues. In assessing whether the client has demonstrated integrity in its activities and operations, the firm may conduct background searches. This may involve questioning and discussing with the intermediary that referred the client to the firm. Background information may also be obtained from media reports, and other reliable sources of online information, such as business profile from Accounting and Corporate Regulatory Authority. Given the diverse nature of businesses and different composition of management team that the firm's clients may have, the firm should determine the most relevant and critical information in performing its clients' integrity assessment.

SSQC 1 HOLDS THAT BY ESTABLISHING SOUND POLICIES AND PROCEDURES, THE FIRM CAN EXERCISE GREATER CONTROL AND DISCRETION IN UNDERTAKING OR CONTINUING CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS.

Once the above relevant information has been collated, it should be retained as evidence of the assessment. It should also be noted that the extent of the background search depends on the level of risk the client presents. Understandably, this would require the firm to conduct more thorough background investigations for certain clients than others. For an engagement relating to a financial statement audit, if the client is served by another existing public accounting firm, it is the duty of the firm to correspond with the predecessor firm. The written correspondence should inquire whether there are any valid professional reasons that the client should not be accepted.

All pertinent facts and considerations regarding the three components should be clearly documented by the firm. The documentation may serve as a basis for evaluation of compliance with relevant standards and regulations, such as the Code of Professional Conduct and Ethics under the Fourth Schedule of the Accountants (Public Accountants) Rules. If there are issues associated with the client or engagement that gives rise to significant risks, the engagement partner should resolve the issues and document the resolutions before approving the acceptance or continuance.

The ideal outcome of a well-executed assessment should have a risk-rating guideline that measures different metrics for each client. The firm should develop a granular risk-rating system with each characteristic of the client measured as a separate metric. With rating clearly designated as low, moderate or high risk, the firm can better allocate its human resources when conducting planning for engagements. For instance, the firm should assign more experienced partners and staff to a client whose risk rating is higher than a client who has low risk rating. The risk rating of a client will also directly affect the nature, extent and timing of the audit procedures for the engagement.

Upon completion of the assessments, the engagement partner should decide whether or not to accept or continue with the client. If the client is accepted or continued, the firm should draw up a comprehensive engagement letter with all the particulars of the engagement clearly specified. Details contained in the letter should include, at a minimum, the objective of the engagement, scope of work, extent of responsibilities of the firm and management, deliverables and applicable financial reporting framework.

MATTERS TO CONSIDER FOR CONTINUANCE OF RECURRING ENGAGEMENT

For a recurring engagement, a firm should conduct a continuance assessment as soon as the prior year's engagement is completed and signed off. The assessment process may encompass the firm's prior engagement experience with the client and preliminary planning for the recurring engagement. Prior to the commencement of audit work, the firm should obtain an update on the significant changes in client's characteristics, businesses and operations, and to evaluate whether there is a change in the risk characteristics of the recurring engagement since the initial continuance assessment. Any significant change in risk characteristics of the recurring engagement may affect the firm's decision to continue with the engagement.

Special emphasis is to be placed on any significant changes in the client's management and those charged with governance, structure or operating environment. Other considerations to assess include the client's financial condition, its ownership and business operations. In situations where the firm deems that some aspects of the client's operations or competence are suboptimal, it should assess the possibility of educating or advising the client to move toward a more efficient practice or a higher level of competence.

AFTER-THE-FACT INFORMATION

If a firm approves acceptance or continuance after a thorough review, and is cognizant of pertinent information which, if known earlier, would have caused it to reject the client or engagement, the firm should consider whether to accept or continue with the client or engagement. In such a delicate position, the firm may seek legal counsel for advice on its positions and options to ensure that it meets all relevant professional, regulatory and legal requirements.

When considering withdrawal from a current client or engagement, there are clearly defined procedures that the firm should refer and adhere to:

a **In light of the facts and circumstances that lead to a withdrawal scenario, the engagement partner should arrange for a meeting with the client's management and those charged with governance. The engagement partner should convey the relevant facts and dialogue on appropriate courses of action. The minutes of such meeting should be documented and retained;**

b **If a withdrawal is the only viable course of action, it is the firm's duty to record and document all matters significant to the withdrawal decision. This should include the outcome of all relevant meetings as evidenced by the minutes, results of the consultation with relevant parties such as other partners within the firm, legal counsel or external consultant, the conclusion and the basis for the conclusion. Examples of the relevant meetings would include the aforementioned meeting with the client's management and those charged with governance, the internal meeting with other partners within the firm and the meeting with legal counsel, if any;**

c **When a withdrawal becomes imminent, the firm should consider whether it has a professional, regulatory and legal obligation to report the withdrawal to any relevant authorities. Such reporting is usually not required in Singapore. However, when in doubt, the firm should seek legal advice; and**

d **In situations where the firm is compelled to continue the engagement against its discretion by a professional, regulatory or legal obligation, the reasons for such continuance should be documented. If there is legal advice solicited, it should also be documented.**

The above procedures should be documented as a withdrawal-of-client process, to serve as reference for the discontinuance decision.

CONCLUSION

For public accounting firms, SSQC 1 lays out the groundwork and provides the proper architecture to achieve sustainability practices. Firms that adhere to the requirements of this SSQC 1 element will benefit from a structured client acceptance or continuance process that only clients with quality and integrity are served by the firms. CPA

By Jason Pang, Quality Assurance Manager, ICPAS