



## Elements of SSQC 1

### Engagement Performance (Part I)



By  
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**T**his is the first of a two-part series on the elements of SSQC 1 – Engagement Performance,

*focusing on the components of “Planning, Supervision and Review” and “Consultation”.*

In tandem with the overarching objective of 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*, the element of “Engagement Performance” pertains to policies and procedures designed to improve the quality of the engagements

performed by a public accounting firm to provide it with reasonable assurance that its engagements are performed in accordance with professional standards, legal and regulatory requirements and in turn mitigate the risk of inappropriate engagement reports being issued.

By adhering to the requirements of the element of “Engagement Performance”, the firm can establish effective and appropriate engagement procedures at the planning stage, which in turn reduces unnecessary

rework time and improves the firm's productivity or even profitability. For example, physical sighting is one of the common audit procedures to address the existence assertion of property, plant and equipment (PPE). If the planning is properly performed, the sighting of PPE can be conducted on the same date that the inventory observation is carried out.

There are five core components within "Engagement Performance":

- ① Planning, Supervision and Review;
- ② Consultation;
- ③ Differences of Opinion;
- ④ Engagement Quality Control Review, and
- ⑤ Engagement Documentation.

## ① PLANNING, SUPERVISION AND REVIEW

The objective of the first component is to ensure that all engagements of a public accounting firm are properly planned, supervised and reviewed. The responsibility of ensuring the firm achieves this objective rests with the engagement partner(s) of the firm.

### i Planning

Prior to undertaking an engagement, the engagement partner should ensure the engagement team members are competent, and have the capabilities to perform the engagement. During the planning stage, roles and responsibilities of each team member should be clearly communicated. The partner should also stress the need to comply with ethical requirements and that the team members should perform the engagement according to professional standards.

To achieve consistency in the audit approach and documentation, the firm should adopt an audit methodology which can be embedded in an audit manual that encompasses audit work programmes and manual/electronic documentation templates, such as the "Audit Manual for Small Companies" issued by the Institute of Singapore Chartered Accountants (ISCA, formerly Institute of Certified Public Accountants of Singapore or ICPAS). The audit

methodology should be reviewed periodically and updated to incorporate the changes in professional standards and regulations.

For each audit engagement of the firm, the engagement team should develop an audit plan that outlines the nature, timing and extent of audit procedures. For example, the firm may use the planning memorandum in the "Audit Manual for Small Companies" issued by ISCA for this purpose. In addition, the plan should appropriately reflect the assessed risk of material misstatements and the corresponding audit procedures for the engagement. Such a plan need not be unnecessarily complex and will vary depending on the engagement risk. For instance, with

regard to a low-risk engagement, the planned audit procedures will be less complex due to fewer significant issues. When developing the plan, the team should also determine if it is necessary to rely on the work of a specialist to complete the engagement. This is because additional procedures are required to be carried out by the team to evaluate the specialist's work, where reliance is placed on it.

### ii Supervision

The engagement partner should determine supervision responsibilities which will vary depending on the complexity of the engagement. Such responsibilities entail addressing significant matters as and when they arise during the course of the engagement and when modifying the planned approach appropriately. Furthermore, the

supervision responsibilities also encompass monitoring the progress of the engagement on a timely basis to gauge the efficiency and effectiveness of time incurred on the engagement.

### iii Review

The engagement partner should ensure that a detailed review of the work done on an engagement is performed by a competent personnel, that is, primary reviewer. Apart from a thorough understanding of the intricacies of the engagement procedures, the primary reviewer should possess the experience and necessary authority to make sound judgement calls. Regardless of the level of complexity of the engagement, the review responsibilities should always be

assigned on the basis that the work of less experienced team members is reviewed by more experienced team members. The quality of the review may be compromised if performed by inexperienced team members who fail to identify instances in which additional engagement procedures are required. Hence, this may result in an inappropriate conclusion for the engagement. For low-risk engagements with client's non-complex business operations, suitably qualified engagement seniors can be

assigned as the primary reviewer. For more complex or riskier engagements, the engagement managers should be designated as the primary reviewer.

The focus of the review by the engagement partner should be on critical areas of judgement, significant risks, difficult or contentious issues and key engagement documents such as the

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SSQC 1

planning and completion memorandum. Together with the primary reviewer, the engagement partner should ensure the engagement team has performed, but are not limited to, the following:

- ⊕ Applied the firm's audit methodology appropriately;
- ⊕ Adhered to ethical requirements;
- ⊕ Performed the audit work in accordance with professional standards, legal and regulatory requirements;
- ⊕ Documented the audit work, consultations and conclusions sufficiently and appropriately;
- ⊕ Initialled, cross-referenced and dated the working papers;
- ⊕ Established and documented client communications, representations as well as work scope and responsibilities of the engagement team members;
- ⊕ Ensured that the objectives of the engagement procedures are achieved, and
- ⊕ Ensured the auditor's report reflects the work performed and is only issued after the completion of fieldwork and review procedures.



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**Regardless of the level of complexity of the engagement, the review responsibilities should always be assigned on the basis that the work of less experienced team members is reviewed by more experienced team members.**

More importantly, all evidence of review should be documented and included in the working papers of the engagement.

## iv Engagement Partner Involvement

A high-quality audit can be delivered when the engagement partner is continuously involved in the engagement. Involvement can be demonstrated by the recorded time incurred on the engagement. The engagement partner's level of involvement may be gauged by comparing to a benchmark determined

by the firm. As highlighted in the 2012 Practice Monitoring Programme Public Report issued by the Accounting and Corporate Regulatory Authority (ACRA), as a starting point, the engagement partner's time involvement of 5% of total engagement hours is regarded to be a reasonable target for low-risk engagements and up to 10% for higher-risk engagements. The percentage of hours may be a range but should be consistent with the spirit of SSQC 1 and the basis of the range should

be duly documented. Inadequate involvement of the engagement partner may have repercussions, for example, inappropriate judgements made by the junior engagement team members, or client complaints due to delays in completing the engagement.

## 2 CONSULTATION

The second component aims to ensure that appropriate consultation processes are established in a public accounting firm for significant, difficult





or contentious issues. This component also emphasises the need to have the matters requiring consultation identified by experienced personnel at an early stage of the engagement. For such matters that are identified, the firm should have consultation internally, or draw on the expertise of external sources, if necessary. The external sources may include other firms within the same network, professional and regulatory bodies, as well as specialist firms that offer consulting services. Whether the

consultation is internal or external, the individual consulted should be furnished with all pertinent facts to enable him or her to provide appropriate opinion. Unintentional cherry-picking of the information provided could lead to an incorrect conclusion.

In addition, the engagement partner should ensure only individuals with adequate knowledge, experience, competency and authority are engaged for consultations. The same principle applies when approaching external

consultants – their capabilities and independence should be considered in determining whether they are suitably qualified. For recurring or pervasive issues which affect most of the firm’s engagements, the firm can issue appropriate guidance to all personnel of the firm. Such guidance may be in the form of emails and complemented by briefings and training.

To make consultation effective and efficient, the firm should establish channels of consultation so as not to encumber the process. For smaller firms, the perennial topic of resources constraint may be mitigated by forming industry alliances with similar firms or establishing reciprocal consultation arrangement with another firm. Such mutually-beneficial relationship can make the resources for consultation available to either party, when needed.

The nature and scope of the consultation, along with its conclusion and action plan, should be documented by the engagement team. This serves to record the consultation and ensures both parties clearly understand the matters considered and that they agree to the conclusion and implementation details.

The criteria for requirement of consultation may include, but are not limited to, the following:

- + A probable going concern issue;
- + Suspected or discovered fraud or other irregularities;
- + Qualified auditor’s report;
- + Proposed restatement of prior year financial statements;
- + Complex or new accounting treatment or issues;
- + Adoption of accounting policy inconsistent with the industry norm, and
- + Problematic valuation issues.

Look out for Part II of the article, which will discuss “Differences of Opinion”, “Engagement Quality Control Review” and “Engagement Documentation”. ISCA

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