ELEMENTS OF SSQC 1

Engagement Performance (Part II)

BY
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This is the second of a two-part series on the elements of SSQC 1 – Engagement Performance, focusing on the components of "Differences of Opinion", "Engagement Quality Control Review" and "Engagement Documentation".

"Engagement Performance" is one of the six elements 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*. This element covers the policies and procedures that a public accounting firm should adopt to improve the quality of the engagements it performs. 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.

The first two components, "Planning, Supervision and Review" and "Consultation" were covered in Part I of this article, which was published in the ***IS Chartered Accountant*** journal, July 2013 issue. The remaining three components are discussed here.

3RD COMPONENT: DIFFERENCES OF OPINION

Differences of opinion may arise within the engagement team for various reasons. For example, the engagement partner and the engagement quality control reviewer may have different views on how a revised accounting standard should be applied for a particular engagement. Under such circumstances, the difference of opinion may be resolved through consultation with other suitably qualified parties. These may include another partner within the firm, or an external consultant who has expertise in the particular accounting standard. If the firm has multiple partners available, an alternative solution is to appoint a committee or a panel of several partners to make the final decision.

The process of resolving differences of opinion should be kept transparent and documented in all cases, with the engagement team informed of the final decision and the rationale behind it. Furthermore, the engagement report should not be finalised and dated until all differences of opinion have been resolved.

It is important to keep in mind that the firm's personnel should strive to be objective in resolving differences of opinion. The firm should also communicate to its personnel that they will be protected from unfavourable consequences for bringing attention to a legitimate and significant issue in good faith. For instance, a junior engagement team member can provide his or her individual view on a specific issue on the engagement to the senior engagement team member without any fear of penalty in the performance appraisal.

Areas where differences of opinion may arise include:

- Interpretations and applications of accounting standards or auditing standards;
- Ethics-related matters;
- Disagreement on the economic substance of a series of the client's transactions;
- Suitability and competencies of the engagement team members, and
- Any other issues that may affect the interests of the client and/or the firm.

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Should an EQC review be required, the firm will have to appoint an EQC reviewer who is objective, independent and has sufficient technical expertise, authority and time commitments for the engagement.

4TH COMPONENT: ENGAGEMENT QUALITY CONTROL REVIEW

The Engagement Quality Control (EQC) review is designed to provide an objective evaluation, on or before the date of the engagement report, of the significant judgements the engagement team made and the conclusions it reached in formulating the report, including whether the engagement report is appropriate. Specifically, audit engagements of listed companies require an EQC review. In addition, the firm should establish criteria to determine whether any of its other engagements require an EQC review. Such criteria may include, for example:

- The nature of the engagement, including the extent to which it involves a matter of public interest;
- The identification of unusual circumstances or risks such as qualified auditor's report in the engagement, and
- Requirement of laws or regulations for an EQC review.

By taking the above criteria into consideration, the firm should assess all its engagements to ascertain whether an EQC review is required when deciding whether to accept or continue client relationships and specific engagements, for the reason that engagement risk is often determined at this stage. For example, if the engagement partner has identified a potential going concern problem of a recurring audit client when performing the continuance assessment, the engagement risk level might be assigned as higher risk and therefore should be mandated for an EQC review.

Should an EQC review be required, the firm will have to appoint an EQC reviewer who is objective, independent and has sufficient technical expertise, authority and time commitments for the engagement. If the reviewer is an internal party, he or she should neither be a member of the engagement team nor selected by the engagement partner and does not act in a decision-making role for the engagement team.

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In some cases, firms may be inclined to appoint an external reviewer, either because the firm has limited number of partners or because the firm would like to benefit from an external party's fresh perspective. A suitably qualified external reviewer may be contracted, or appointed through a reciprocal arrangement with another firm. Whichever the case, the documentation of the review should be robust with sufficient key details captured, which include, as a minimum, the scope and date of review, the review findings and the evidence of sign-off.

It is crucial to safeguard the objectivity of the EQC reviewer, whether internal or external. To this end, consultation on complex issues of the engagement, such as fair value accounting estimates of a derivative, should be segregated from the EQC review. The process of such consultation should be duly completed with a suitably qualified party (for example, valuation expert or technical partner) other than the EQC reviewer.

Otherwise, there is a risk that if the EQC reviewer is extensively consulted on a specific issue, his or her objectivity may be compromised and it may become necessary to replace the reviewer.

To ensure that the EQC review process is efficient, the engagement team should work closely with the EQC reviewer. This includes stipulating the timeframe for the EQC review's completion, allocating a reasonable amount of time for the review, and involving the reviewer at appropriate stages throughout the engagement, so that any significant matters can be promptly resolved. Such involvement of the reviewer can be demonstrated by his or her recorded time involvement of the engagement. The EQC review should be completed before the engagement report is finalised and dated.

Components of an EQC review* should typically include:

- Discussion of significant matters with the engagement partner (for example, significant risks, fraud risk and audit approach for group audits);
- Review of key auditing and accounting issues and assessment of whether they have been appropriately addressed;

*The list is not exhaustive.

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- Review of the financial statements and the proposed engagement report;
- Review of selected working papers relating to the significant judgements made by the engagement team and the conclusions reached;
- Evaluation of the conclusions reached in formulating the proposed engagement report, and assessment of whether these conclusions are appropriate;
- Assessment of the engagement team's independence relating to the engagement;
- Review of consultation on difficult or contentious issues, and assessment of whether consultation has been duly performed, completed and documented;
- Review of differences of opinion, and assessment of whether differences have been appropriately resolved, and
- Other relevant matters (for example, significance and disposition of corrected and uncorrected misstatements, or matters to communicate to those charged with governance).

5TH COMPONENT: ENGAGEMENT DOCUMENTATION

Firstly, a timeline for archiving the engagement documentation should be established for assembling the final working papers of the engagement, excluding superseded drafts and review points worksheet. For audit engagements, as stated in SSQC 1 para A54, the deadline is ordinarily not more than 60 days after the date of the auditor's report. The engagement file should clearly indicate when the documents were archived and the assigned appropriate personnel should approve the archival. Sometimes, the archival might not be performed in a timely manner if the engagement team member in charge of archival is occupied with other engagements. To overcome such an issue, the firm may establish a monitoring mechanism by tracking the date of auditor's report for its engagements and sending email notifications to the engagement partner and the engagement team members prior to the archival date.

According to Singapore Standard on Auditing 230 *Audit Documentation*, in exceptional circumstances, if the firm obtains new or additional audit evidence after the date of the auditor's report, such as a debtor's confirmation reply, the firm should document:

- The circumstances encountered;
- The new or additional audit procedures performed, audit evidence obtained, conclusions reached and their effect on the auditor's report, and
- When and by whom the resulting changes to audit documentation were made and reviewed.

Typically, a firm has to retain its archived engagement documentation for a period of time; the duration depends on the nature of the engagement, and whether the engagement documentation is required to provide a record of matters of continuing significance to future engagements. For audit engagements, as stated in SSQC 1 para A61, the documentation has to be retained for a minimum of five years from the date of the auditor's report or group auditor's report, whichever is later. The documentation of audit engagements which involves a pending or ongoing litigation may need to be retained for more than five years until the litigation has ended, because the relevant authorities may require access to such documentation.

Access to the archived engagement documentation should be controlled in order to ensure that client information remains confidential; it should also be easily retrievable when needed. This can be achieved through physical access control – the maintenance and control of hard copy engagement files by filing clerks, and computer access control – which includes password control and encryption for soft copy engagement files. If the firm's personnel who are not part of the engagement team would like to access the information, their request should be approved by the engagement partner or other appropriate personnel. The access controls could safeguard the unauthorised alteration of engagement documentation after they are archived.

QUALITY CONTROL: THE ROUTE TO BETTER ENGAGEMENT PERFORMANCE

By implementing quality control policies and procedures for engagement performance, a public accounting firm will be better equipped to consistently deliver high-quality services that are not only in accordance with professional standards, legal and regulatory requirements, they also help to reduce rework times and errors; these will in turn rev up the firm's productivity. ISCA

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