

## ELEMENTS OF SSQC 1

### Monitoring



BY  
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“Monitoring” 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 which a public accounting firm should establish to monitor its quality control system.

The “Monitoring” element serves a primary role to ensure that the firm’s quality control system is relevant, adequate and operating effectively. There are three major components within “Monitoring”:

1. Monitoring Programme;
2. Evaluation, Communication and Remediation of Identified Deficiencies, and
3. Complaints and Allegations.

#### 1 MONITORING PROGRAMME

A public accounting firm’s ability to issue appropriate engagement reports and to comply with professional standards, legal and regulatory requirements hinges upon its quality control system. Hence, the firm should always strive to ensure that its quality control system is both appropriately designed and effectively implemented. To achieve this vital objective, this component provides guidance on the monitoring programme that the firm can put in place.

#### What should be monitored?

The monitoring programme should include firstly, an ongoing general evaluation of the firm-wide quality control policies and procedures, and secondly, the inspection of a selection of individual completed engagements which may be chosen without prior notification to the engagement team. In addition, the monitoring programme should also encompass the following:

- + Analysis of new developments in professional standards, legal and regulatory requirements and evaluation of whether the quality control system reflects these developments;
- + Review of written confirmation of compliance with policies and procedures on independence;
- + Assessment of adequacy of continuing professional development (including training);
- + Evaluation of decisions relating to acceptance and continuance of client relationships and specific engagements;
- + Regular followup on remediation plans arising from the previous inspection, to ensure that such plans are properly developed and implemented, and
- + Review of complaints and allegations to ensure that they are properly dealt with and resolved.

In determining the scope of the monitoring programme, the firm may take into account the scope or conclusions of an independent external inspection programme such

as the Accounting and Corporate Regulatory Authority’s Practice Monitoring Programme. However, this programme does not act as a substitute for the firm’s own internal monitoring programme.

#### Who should be in charge of monitoring?

The monitoring programme should be overseen by a partner or other

personnel who has appropriate competence, experience and authority. Other than this designated personnel who assumes responsibility for the monitoring programme, the firm can also assign other suitably-qualified personnel to assist him or her in conducting the monitoring. However, the personnel who performs the engagement and the engagement quality control reviewer should not be involved in the inspection of their own completed engagements. Such arrangement is necessary to preserve an impartial and objective assessment of the quality of the engagement.

For smaller firms with limited resources, the monitoring programme can be conducted by personnel who are responsible for the design and implementation of the firm’s system of

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**"MONITORING"  
COMPONENTS**

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**1**

**Monitoring  
Programme**

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**2**

**Evaluation,  
Communication  
and Remediation  
of Identified  
Deficiencies**

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**3**

**Complaints  
and  
Allegations**

# TECHNICAL EXCELLENCE

SSQC 1

quality control. However, the personnel assigned should have sufficient authority, experience and objectivity to perform the monitoring. Otherwise, the firm may bring in a suitably-qualified external party to carry out the monitoring programme, or establish a peer review arrangement with another firm so long as there is no conflict of interest or independence issue. If the firm belongs to a network of firms, it may engage practitioners from another member of the network to carry out the inspection of engagements.

The Institute of Singapore Chartered Accountants (ISCA) also provides resources specifically aimed at assisting small and medium-sized practices (SMPs) in the inspection of engagements, such as the Quality Assurance Review Programme. This programme helps firms to identify potential deficiencies in their engagements, and recommends specific action plans to improve the quality of their engagements.

## How should monitoring be carried out?

The procedures of the monitoring programme will largely depend on the firm's characteristics, such as the size and nature of its practice, results of previous monitoring programme, type of engagement it undertakes and its ability to maintain documentation. For example, if the firm maintains records of Continuing Professional Education (CPE) for its professional staff, it can examine these records to monitor whether the training requirements for its professional staff have been fulfilled. If the firm has instead requested its professional staff to maintain their own CPE records, the firm would need to review fulfilment of training requirements by checking those records periodically against supporting letters of attendance and other relevant documents.

The firm should embed the monitoring programme in its operations, recognising that it is an essential part of the quality control system to provide the

firm with reasonable assurance that breaches of policies and procedures are unlikely to occur or go undetected. Firstly, the firm should ensure that its personnel understand the importance of the audit quality and the objective of the monitoring programme. One way to do so is by incorporating an additional criterion relating to monitoring into the engagement partners and staff's performance evaluation. For example, the results of inspection of engagements can be included in the performance review and compensation of the engagement partners and staff whose engagements have been selected for inspection.

Secondly, the firm should allow ample time for the designated monitoring personnel to complete the monitoring programme. The duration mainly depends on the complexity and scope of the monitoring programme. Other than providing sufficient time for its completion, the monitoring programme should also be performed periodically. In particular, for inspection of engagements within the firm, each engagement partner should have at least one completed engagement inspected on a cyclical basis, which is normally not more than three years.

Thirdly, the monitoring programme should be documented. To facilitate such documentation, the firm may adopt a monitoring template covering the following:

- + Details of the monitoring programme including inspection procedures;
- + Evaluation of whether the firm has appropriate quality control policies and procedures;
- + Evaluation of adherence to

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professional standards, legal and regulatory requirements;

- + Evaluation of whether the engagement report is appropriate;
- + Identification and description of any deficiencies and their underlying reasons and implications;
- + Description of remedial actions for the identified deficiencies, if applicable, and
- + Summary of results and conclusions reached.

## 2 EVALUATION, COMMUNICATION AND REMEDIATION OF IDENTIFIED DEFICIENCIES

When deficiencies in the firm's quality control system are identified from the monitoring programme, they must be properly addressed. This



component provides guidance on how to evaluate, communicate and remediate the deficiencies.

#### **Evaluation**

Issues or deficiencies may fall into two major categories – systemic or structural flaws within the firm’s quality control system, or non-compliance by a specific engagement partner or staff. To ascertain which category each deficiency belongs to, the firm has to identify and understand the root cause of each deficiency.

An example of systemic flaws would be staff repeating ineffective procedures for recurring engagements simply because the staff would often “do what was done last year”. Such a case may happen when the staff performs the sales cut-off procedures by following last year’s fixed sample size selection without considering the risk of cut-off errors, nature of sales etc. This may develop into a cycle of deficiencies that continues until it is challenged through inspection of these engagements.

For non-compliance by a specific engagement partner or staff, an example would be the breach of independence by an engagement team member where he or she does not declare and divest the financial interest held in the client he or she is serving.

#### **Communication**

The firm’s personnel should be made aware of any deficiencies and the relevant recommendations for remedial action. On a periodic basis, at least annually, the firm should disseminate the results of the monitoring programme to all engagement partners and staff. If the results include critical deficiencies, the communication needs to be immediate. This will allow partners and staff to understand the deficiencies and take appropriate remedial action wherever necessary, minimising the chance of similar deficiencies occurring in the future.

In the above example of systemic flaws, for instance, communicating the deficiency to staff is crucial to resolve it. Such a critical deficiency can be immediately communicated via emails, which should include guidance on the proper procedures, to all personnel of the firm and can be re-emphasised subsequently in regular staff meetings and training sessions.

If the firm is part of a network of firms and a common monitoring programme is implemented on a network basis, the firm should request that the scope, extent and results of the monitoring programme, as well as any identified deficiencies, be communicated to appropriate individuals within the firm at least annually.

The results of monitoring should include:

- Description of the monitoring and inspection procedures performed;



- + Conclusions drawn from the monitoring programme, and
- + Description of systemic, repetitive or significant deficiencies and remedial actions, if applicable.

## Remediation

At all times, remediation procedures should aim to bring the firm into compliance with professional standards, legal and regulatory requirements.

Recommendations for remedial action may include:

- + Corrective action that should be taken by the engagement partner or engagement team members;
- + Communication of the findings to the personnel responsible for training and professional development to conduct training courses or supplemental education for the firm's personnel;
- + Changes to the firm's quality control policies and procedures, and
- + Disciplinary action against the engagement partner or engagement team members who wilfully refuse to comply, especially those personnel who do so repeatedly.

As illustrated in the above example, a repetitive deficiency may occur for improper completion of sales cut-off procedures for the selected engagements under inspection. The firm may address this deficiency by issuing guidance with documentation templates to all personnel, so as to educate them about the appropriate procedures on sales cut-off.

For the other example on the breach of independence by an engagement team member, the firm may counsel him or her and consider including such non-compliance in his or her performance evaluation if this is a first-time offence. For personnel who repeatedly violate the firm's independence policies, the firm may consider terminating his or her employment.

Where the results of the monitoring programme indicate that an engagement report issued may have been inappropriate, the

firm should determine what further action is appropriate, bearing in mind professional standards, legal and regulatory requirements. Under such circumstances, the firm should also consider obtaining legal advice.

## 3 COMPLAINTS AND ALLEGATIONS

The firm should maintain a defined process to deal appropriately with:

- + Complaints and allegations that work performed by the firm fails to comply with professional standards, legal and regulatory requirements, and
- + Allegations of non-compliance with the firm's system of quality control.

It is inevitable that complaints and allegations may be raised at some point, whether by the firm's personnel, clients or other third parties.

If inappropriately managed, they may be damaging to the firm. This component therefore aims to provide guidance on how to handle complaints and allegations.

The firm should firstly ensure that it has a point of contact for handling complaints and allegations. This point of contact should be a personnel with sufficient experience and authority to promptly manage the complaints and allegations, and to allow the relevant parties to raise their concerns without fear of reprisal.

Similarly, complaints or allegations should be investigated by a personnel with sufficient experience and authority, either a partner or a suitably qualified external party who is not involved in the original complaint or allegation. The investigation should

be fully documented and followed up with corrective actions, which may include training, disciplinary actions or amendments to the firm's quality control system where necessary.

The complaints and allegation process should follow this sequence:

1. *Identify the facts of the situation*  
This may be done through conducting interviews or inspecting relevant documents;
2. *Determine whether there has*

*been a breach*

If so, assess its consequences in the context of professional standards, legal and regulatory requirements as well as the firm's policies and procedures;

3. *Consult the appropriate individuals within the firm*  
If necessary, seek legal counsel;
4. *Develop a findings report, which should include recommendations*

where relevant, and

5. *Respond to the complainant.*

## MONITORING: THE MAINSTAY OF QUALITY CONTROL

Quality control policies and procedures are the mainstay of a firm's ability to deliver high quality service. Hence, the firm should monitor the effectiveness and compliance of these policies and procedures by examining its operations regularly and implementing appropriate ways to manage the risk the firm faces. With the robust monitoring mechanism, the firm can continuously enhance its quality control system. ISCA

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