

EMBRACING THE SPIRIT OF SSQC 1

RAISING AUDIT QUALITY

An increasing emphasis is currently being placed on the implementation 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* in public accounting firms to improve audit quality. In the recent proposed amendments to the Accountants Act, one of the pre-conditions in assessing a public accounting firm's capacity and preparedness to undertake an engagement of public interest entities (PIEs) is the demonstrated compliance with SSQC 1, and its importance was again highlighted at Accounting and Corporate Regulatory Authority's (ACRA) Public Accountants Conference (PAC) in August 2012.

OBJECTIVES OF SSQC 1

The overarching objective of SSQC 1 is to provide a sustainable structure for public accounting firms to raise audit quality in a dynamic economic environment where financial reporting and auditing regulations are evolving at a rapid pace. Compliance with SSQC 1 also allows the firms to promote a culture that places "quality" front and centre. This serves to enhance the firms' ability to consistently meet the relevant stakeholders' expectations and deliver high quality work.

More importantly, SSQC 1 focuses on firm-wide quality control rather than on individual competency, and provides the firm with a holistic approach to improve the quality of its work. This ensures consistent delivery of high quality work by the firm as a whole. Having good firm-wide quality control reduces the extent of reliance on any key personnel of the firm, thereby shielding the firm from the adverse effects of key staff movement.

WHAT SSQC 1 ENTAILS

Implementing SSQC 1 successfully requires a paradigm shift in the mindset of practitioners and professional staff in public accounting firms. It is important to understand that the nature and extent of policies and procedures of quality control are dependent on various factors such as operating characteristics, and size and nature of the firms. It is a myth that quality controls must be sophisticated to be effective. Contrary to this mythical belief, SSQC 1 applies to small and medium-sized practices (SMPs) as much as it applies to the larger firms. SMPs should embrace the spirit of SSQC 1 to improve the overall quality of their work. SSQC 1 should not be



KEY ELEMENTS OF SSQC 1

Under SSQC 1, a public accounting firm's system of quality control should include policies and procedures to address the following six elements:

- + Leadership Responsibilities for Quality within the Firm;
- + Relevant Ethical Requirements;
- + Acceptance and Continuance of Client Relationships and Specific Engagements;
- + Human Resources;
- + Engagement Performance; and
- + Monitoring

The policies and procedures should be documented and clearly communicated to the firm's personnel. The essence of each element is briefly described here:

1 Leadership Responsibilities for Quality within the Firm

The leaders of the firm, who normally are partners, are required to promote a quality-oriented work culture where commercial considerations do not override the quality of work performed, and to assume ultimate responsibility for the firm's quality control system.

2 Relevant Ethical Requirements

The firm should comply with the relevant ethical requirements such as the Code of Professional Conduct and Ethics under the Fourth Schedule of the Accountants (Public Accountants) Rules. This Code includes and is not limited to maintaining independence and confidentiality, managing conflicts of interest and applying appropriate

safeguards against independence threats.

3 Acceptance and Continuance of Client Relationships and Specific Engagements

When accepting or continuing client relationships and specific engagements, the firm needs to ensure firstly that it has ascertained the integrity of the client, and secondly that it can comply with the relevant ethical requirements. The onus also lies with the firm to ensure that it has competent and adequate resources to complete the engagement.

4 Human Resources

The firm's staff should be appropriately trained, whether through inhouse training or external courses provided by professional bodies such as ICPAS. The firm

needs to have adequate competent staff to undertake engagements, and the staff should be given sufficient time to complete the engagements. In addition, the firm should implement an appraisal and rewards system emphasising the quality of work performed by all staff up to and including partners.

5 Engagement Performance

Engagements should be supervised and reviewed at an early stage by senior professional staff, partners and if applicable, an independent and objective EQCR. The engagement team members should also identify and resolve differences of opinion and issues at an early stage. Difficult or contentious issues should be addressed through appropriate consultation.

6 Monitoring

The firm should establish a monitoring and inspection programme to ensure that its system of quality control remains relevant and effective. This programme should include the review of completed engagements by a firm's designated personnel (but not EQCR or those staff involved in the engagements) or a suitably qualified external person, such as other firms and professional bodies. For example, a firm may enrol in ICPAS' upcoming 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 a firm.

implemented with the intention of passing the Practice Monitoring Programme (PMP) by the regulators or for the eligibility to undertake an engagement of PIEs.

The implementation of SSQC 1 can be performed in phases to allow firms to fully appreciate each of the six elements of SSQC 1 (refer to "Key Elements of SSQC 1" for these elements), especially for smaller firms, but it should nevertheless be completed within a reasonable planned timeline. SSQC 1 implementation should never be perceived merely as a formality or a form-filling exercise.

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Upon successful implementation, the firm will have integrated quality control policies and procedures in place which could be evidenced by adequate documentation. "The journey to implementing SSQC 1 is not achieved in one step but in many steps, without giving up on what one believes are the right things to do," said practitioner Mr Michael Chin, PKF-CAP LLP.

BENEFITS AND CHALLENGES OF SSQC 1

SSQC 1 implementation does come with a number of challenges, particularly for SMPs which may lack the resources for monitoring, Engagement Quality Control Reviewer (EQCR), consultation and dealing with complaints and allegations. Hence, they

may need to engage consultants or professional bodies such as ICPAS to complement their quality control policies and procedures (refer to “ICPAS Supports SSQC 1 Implementation among SMPs”).

The firms will also need to re-think and re-design their work processes in order to implement the quality control policies and procedures. One approach would be to leverage on the use of technology. Firms should consider implementing a practice management system particularly in managing human resources, or audit software for efficient engagement performance. Currently, there is a range of audit software in the market that integrates the documentation tool with the audit methodology.

Notwithstanding the aforementioned challenges, the benefits which could be reaped from the implementation of SSQC 1 are many.

Sound firm-wide quality controls reduce the risks of inappropriate engagement reports being issued and help to ensure that public accounting firms not only comply with legal and regulatory requirements but also meet the required professional standards. Complying with SSQC 1 would therefore reduce the exposure of practitioners to the risk of liability.

At an operational level, quality control policies and procedures can also help to address staff morale and retention issues. To comply with SSQC 1, the firms have to equip their staff with the required knowledge and competencies through relevant trainings. This

would contribute to higher staff morale and motivation, and indirectly to an improved staff retention rate.

Having good engagement performance controls will also put firms in good stead to yield higher productivity gains. For instance, early and timely involvement of senior professional staff, partners or EQCR minimise the incidences of incorrect engagement procedures, poor documentation and “over-auditing” right from the start of the engagement. “We need to move our focus from cost in the present to investment for the future when implementing SSQC 1. When you think about it, a lot of the benefits are actually intangible in nature,” said PKF-CAP’s Mr Chin.

It is widely recognised that some of these changes will inevitably require time and cost investment but in the long run, the benefits of implementing SSQC 1 will far outweigh the costs. This is achieved through significant quality enhancement which will lead to strengthening of the firm’s brand equity. A firm’s future growth and profitability is sustainable only if it is built on the solid foundation of quality. Hence, SSQC 1 makes business sense. **CPA**

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

ICPAS SUPPORTS SSQC 1 IMPLEMENTATION AMONG SMPs

To support SMPs in implementing SSQC 1, ICPAS will issue **Practice Guides** on the six elements of SSQC 1 over a six-month period starting from October 2012.

The Practice Guides, which include illustrative policies and procedures with various practice aid templates, will help SMPs in documenting the quality controls they implement. A series of **workshops** will be organised by ICPAS to walk the SMPs through the objectives and application of the respective SSQC 1 elements. More workshops have been lined up in the second half of 2013 by ICPAS for practitioners who need more support in addressing their quality control gaps.

There will also be a **series of articles** to be published in the *CPA Singapore* journal from January 2013 to enhance practitioners’ understanding and appreciation of each element of SSQC 1. Additionally, from 2014, ICPAS’s upcoming **Quality Assurance Review Programme** could cover the review of SMPs’ compliance of SSQC 1 at the request of the practitioners. Prior to these initiatives, in September 2012, ICPAS had conducted a **full-day course** and a **Technical Clinic** on SSQC 1-related topics.

Through the above initiatives, ICPAS offers relevant guidance and timely “touch points” to SMPs in their implementation of SSQC 1.

