

Implementing SSQC 1 for Sole Practitioners

Challenges And Solutions (Part 1)



BY
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Against the backdrop of rising expectations by stakeholders in the financial eco-system on the quality of public accounting firms, it is ever more important for firms to embark on the implementation of the 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*. However, smaller firms, with their limited resources, inevitably face challenges in implementing SSQC 1. Sole practitioners in particular encounter their distinctive challenges, which can be different from those faced by partnerships, in adopting this standard.

Nevertheless, sole practitioners should not overlook the benefits that SSQC 1 can bring to their firms. To

gain a better understanding of how SSQC 1 affects sole proprietorships, the Institute of Singapore Chartered Accountants (ISCA) interviewed five members, and share their experiences in a two-part article. Of the five, two sole practitioners have substantially completed SSQC 1 implementation in their firms while the remaining three have partially implemented SSQC 1 in 2013. Find out the challenges they faced or are facing, and more importantly, the benefits they are already reaping.

All five of the interviewees unanimously agreed that SSQC 1 is essential for the long-term sustainability of their firms. **Wee Kong Eng** of **KE Wee & Associates**, whose firm has begun to implement SSQC 1 since this April, pointed out that providing quality services is the firm's fundamental duty in any case, and

SIX KEY ELEMENTS OF SSQC 1

1 Leadership Responsibilities for Quality within the Firm covers the policies and procedures that a public accounting firm should establish to promote an internal culture recognising that quality is essential in performing the firm's engagements.

2 Relevant Ethical Requirements covers the policies and procedures that the firm should establish to provide reasonable assurance that the firm and its personnel comply with the requirements on ethics, in particular, the Code of Professional Conduct and Ethics under the Fourth Schedule of Accountants (Public Accountants) Rules.

3 Acceptance and Continuance of Client Relationships and Specific Engagements covers the policies and procedures that the firm should establish to evaluate whether it has competent and adequate resources before accepting or continuing client relationships and specific engagements. Other than the competence, the firm should place equal emphasis on its compliance with relevant ethical requirements and the integrity of the client it serves.

4 Human Resources covers the policies and procedures for the management of the firm's human resources with the ultimate goal of

ensuring that the firm has sufficient personnel with the competence, capabilities and ethical commitments to perform its engagements.

5 Engagement Performance covers the policies and procedures that the firm should adopt 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.

6 Monitoring covers the policies and procedures for monitoring the firm's quality control system that it is relevant, adequate and operating effectively.

TECHNICAL EXCELLENCE

SSQC 1

SSQC 1 merely formalises the quality control policies and procedures and the requirement for documentation.

KEY CHALLENGES

With only one partner in the firm and typically less than 20 or even less than 10 staff, sole proprietorships are especially challenged in the resources required to effectively implement SSQC 1. Firstly, sole practitioners are responsible for many tasks, which take a toll on their time. They are therefore not able to effectively focus on implementing SSQC 1. This was specifically highlighted by Alan Ng of Alan Ng & Partners, whose firm has only three staff. In addition, sole practitioners may not have competent staff to carry out SSQC 1 implementation. Generally, the staff only possess limited knowledge of SSQC 1 and lack experience in establishing quality controls.

Secondly, being the only partner in a firm, it is difficult for sole practitioners to conduct formal internal consultation on complex accounting issues due to the absence of suitably qualified internal personnel. This point was brought up by Rowland Kew of YM Kew & Co, whose firm has 14 staff – the largest among the sole proprietorships interviewed. Similarly, sole practitioners always have obstacles in carrying out engagement quality control (EQC) review in their firms as it is challenging to appoint an eligible internal EQC reviewer who is objective, independent and has sufficient technical expertise and authority. This was concurred by Eileen Lee Bee Lan of BL Lee & Co. As sole practitioners always have the final decision-making authority in their firms, it is extremely difficult for them to have an internal EQC reviewer to critically challenge their decisions.

Another common challenge is the familiarity threat caused by the long association of senior personnel with assurance clients, as one engagement

involves the same sole practitioner for a long period of time as partner rotation is not available. This was highlighted by a majority of the interviewees.

Exacerbating the issue of limited resources, the interviewees also cited human resource management, especially talent attraction and retention, as a major challenge. In particular, it is difficult to retain their staff, and most staff only stay in a firm for two to three years on average.

On top of this, one of the interviewees also shared that it is difficult to conduct effective performance review in a sole proprietorship as the staff often work in a small team-based environment. Ms Lee of BL Lee & Co said, “Senior staff tend to give a better performance rating to junior staff in order not to damage working relationships.”

Common to all firms which include partnerships, staff mindset presents another obstacle. Some of the interviewees observed that staff may not comply with quality control policies and procedures, typically because they do not understand the importance of doing so. Luar Eng Hwa of EH Luar & Co said, “Some staff have a different mindset which only focuses on the compensation but does not emphasise quality of work.”

AREAS OF CRITICAL FOCUS: “MONITORING” AND “ENGAGEMENT PERFORMANCE”

Of the six key elements of SSQC 1, most interviewees, especially those who have partially implemented SSQC 1, highlighted that the elements which are the most difficult to implement are also the most beneficial to them. The “Monitoring” and EQC review under “Engagement Performance” elements were specifically cited as these are very resource-intensive and may require the firms to engage an external specialist. Mr Ng of Alan Ng & Partners, whose firm began

implementing SSQC 1 in March this year, said, “These two elements of SSQC 1 help the firms identify deficiencies in the firm-wide quality controls or the firms’ engagements and enable the firms to effectively remediate the deficiency.”

However, the experience of firms that have substantially implemented SSQC 1 suggests that the “Human Resources” element may assume greater prominence in the firm’s quality control system. Mr Kew of YM Kew & Co, whose firm has commenced implementing SSQC 1 since 2005, said that “Human Resources” is both the most important and the most difficult element to implement as it is always



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challenging to recruit and retain quality staff. "The competence of the staff directly affects the quality of their work," he explained. "We have therefore been organising customised inhouse training programmes to provide guidance and coaching to the staff. This also helps with staff retention as it raises their learning prospects."

Look out for Part II of the article in the December issue of **IS Chartered Accountant**. Part II will discuss the potential solutions to the challenges identified.

Jason Pang is a Quality Assurance Manager at ISCA. For further details on ISCA initiatives - QAR Programme, SSQC 1 Practice Guides and SSQC 1 Workshops, please contact our Quality Assurance Team at qualityassurance@isca.org.sg.



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MS EILEEN LEE
BL LEE & CO

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MR ALAN NG
ALAN NG & PARTNERS

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MR ROWLAND KEW
YM KEW & CO

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