

# STRONG AUDIT QUALITY CONTROL STRENGTHENS FIRM'S FOUNDATION

Embracing the Spirit of SSQC 1



BY  
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Owen had recently completed his accounting degree and was looking forward to entering the workforce. As he was getting ready for his gym session one morning, the phone rang. It was June, the Human Resource (HR) and Administrative Executive of Assurance LLP. Voila – he had secured the job!

## “NORMAL” PRACTICES AT WORK

On the first day of work, June ran through with Owen the firm's office and personnel policies and procedures. He was introduced to the two audit partners of the firm as well as other colleagues. Thereafter, he was assigned a laptop and asked to familiarise himself with the firm's audit manual.

Later that day, an audit senior informed him that he was “booked” on an engagement under her charge and that they would be leaving for “fieldwork”. She instructed Owen to retrieve the past year's audit working files. His senior told him they had a pressing deadline to meet and that he was to “follow closely last year's working papers” as “there was not



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much change". Needless to say, he had minimal supervision from his senior as she was also busy with another engagement. They "pulled out" from the fieldwork a week later.

Owen's next engagement was more challenging. Not only was the engagement for Big Rock Construction Pte Ltd more complex, the client's management was difficult to handle. Compounding the problem, only the engagement partner has the relevant knowledge of the client's business and industry; the engagement team members were also not properly briefed prior to the commencement of the fieldwork.

Assurance LLP had an open culture where staff felt comfortable approaching the partners whenever they felt the need to meet, ask questions or discuss suggestions and issues. However, the partners were too swarmed with work and meetings. As such, there was a lack of proper planning discussions involving the partners and engagement team which resulted in certain issues being overlooked and not identified.

When Owen discovered missing bank statements for certain months while performing audit procedures on the cash and bank balances section, he was informed by his senior to select a replacement sample. There were many times when Owen wondered what he should be doing next; he was new but he was often left to his own devices.

Time passed quickly. In Owen's ninth month, the firm sent him for the Practical Audit Workshop 1. From the workshop, he learnt the importance

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# TECHNICAL EXCELLENCE

STRENGTHENING AUDIT QUALITY CONTROL

of developing an audit plan, and that an engagement partner's involvement is crucial at all stages of an audit. His firm had not done things this way.

Big Rock Construction was selected for regulatory inspection and the outcome was not favourable. The partner's practising licence was suspended due to repeated instances of non-compliance.

Shortly after, Owen left the firm.

This could be a common scenario at some audit firms. The harsh reality is that some practices are built on shaky foundations. What are lacking are strong audit quality control systems within the practices.

## STRONG FOUNDATION, STRONG HOUSE

Let's liken a firm built on a solid foundation to a "House of SSQC 1". In the latter, there is a control system governing every aspect of the business activity from the hiring of staff and formation of an engagement team to issuance of an auditor's report.

Effective implementation of SSQC 1 would provide firms with the assurance of consistency in quality across all outputs and services provided by the firm. Here are some ways to strengthen the foundation of your firm.

### 1 Leadership: Tone at the top

Owen's audit partners lack a strong tone that emphasises quality in key aspects of the firm's operations and processes. For example, due to the vicious cycle of the partners' heavy workload, lack of proper staff training, and staff's seemingly weak ethical behavior, ultimately, the quality of audit engagements would suffer.

The tone from the people in leadership positions – emphasising quality – is of paramount importance in creating a culture of quality. They can be the partners, managers or any other persons to whom employees look or model after, in daily communications and actions.

It is essential to monitor each

partner's capacity to ensure that he/she can dedicate sufficient time to all their engagements, taking into consideration the risk levels and complexity of the engagements, as well as the available staff support.

### 2 Ethics: Workplace culture

Adequate training and a strong leadership tone promoting good ethics will help to minimise unethical behaviour in firms.

When things go wrong, an ethically strong employee will know when to make a report and will work towards a resolution while remaining professional at all times. For example, the senior and Owen will know that it is necessary to report to the engagement partner on the missing bank statements, and that the issue would warrant further investigation.

As chartered accountants, it is our responsibility to abide by the relevant professional ethics. Firms also play a part in ensuring that

every professional staff undergoes a comprehensive training session on professional independence and ethics requirements. An annual refresher course is necessary to provide a timely reminder of the importance of being independent and behaving ethically.

A culture where misconduct is tolerated could result in higher business risks and a tarnished reputation. On the other hand, firms that work hard to build and maintain ethical workplace cultures are more financially sustainable and have more motivated and productive employees.

### 3 Acceptance & Continuance

With a strong audit quality culture, Assurance LLP would have a more robust client/engagement acceptance and continuance process, and Big Rock Construction might not be retained by the firm.

The firm's client/engagement acceptance and continuance process is probably the most neglected

## HOUSE OF SSQC 1







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area within SSQC 1. Independence requirements aside, firms should formally consider the integrity of the client and whether they have the necessary competencies within the existing staff resources to perform the engagement. No doubt fee generation is important, but accepting the right clients is even more important for the betterment and sustainability of the firm.

#### **4 HR: Employees are the backbone of the firm**

Assurance LLP does not have a proper training schedule or professional development for its staff. Upon joining the firm, Owen should have been given adequate training on the firm's audit manual and methodology before being deployed for audit assignments.

The success of a firm is linked to the

management of its staff. Adequate training (including regular and timely updates on technical and quality-related matters) and rewarding an individual's contribution to quality are two key aspects of HR.

All staff should keep abreast of changes in the relevant standards and regulations in order to deliver high-quality work. Beyond formal training programmes, this can be done through the compilation of relevant and useful resources (such as audit and accounting-related articles and publications from professional accounting bodies) for reading and knowledge-sharing among staff within the firm.

Rewarding compliance with quality through an effective and fair performance evaluation system will improve staff motivation, reinforce good behaviour and performance, and encourage staff to continue their professional development. This will improve overall morale and productivity.

#### **5 Engagement Performance: Quality of audit engagements**

All engagements that the firm

undertakes must be adequately planned, supervised and reviewed to ensure that the audit opinion issued is correct in light of the circumstances surrounding the case. The engagement partner should take responsibility for the overall quality of the engagement, despite delegating certain tasks to the engagement team members.

#### **6 Monitoring: Quality control checks**

The quality control (QC) policies and procedures are a key part of the firm's internal control system. All partners and professional staff should continually strive to meet quality and professional standards as well as the firm's guidelines. Over and above that, there must be regular QC checks to ensure that the firm and its staff meet a consistent set of standards, and that any gaps in quality are identified and promptly rectified.

Firms may appoint a partner from within a firm or a suitably-qualified external professional such as peers or professional accounting bodies to conduct the monitoring review.

#### **SUMMARY**

One should never view SSQC 1's six elements in isolation as they are only effective when they come together as one. Every firm, regardless of size, should have a QC system in place. The difference lies in the nature and extent of the firm's quality control policies and procedures. Embracing SSQC 1 creates a foundation for a sustainable future as it fosters a culture that encourages quality and ethical behaviour, attracts and retains talents, helps firms better meet the expectations of their clients and provides the leading edge necessary to succeed in a competitive marketplace.

To find out how ISCA can support your SSQC 1 implementation journey, please email [qualityassurance@isca.org.sg](mailto:qualityassurance@isca.org.sg). ISCA

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