

## INAUGURAL ISCA SSQC 1 SURVEY

### Understanding SMPs' SSQC 1 Implementation



BY  
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In today's global economic architecture where things move at breakneck speed, financial reporting and auditing regulations are also evolving in tandem. It is therefore of paramount importance for public accounting firms to have a proper structure and system to enable them to consistently deliver high quality professional service.

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* provides firms with this structure to raise their professional service quality and allows them to promote a culture that places "quality" at the forefront of the firm.

Recognising the crucial role of SSQC 1 in enhancing quality, the Institute of Singapore Chartered Accountants (ISCA) Quality Assurance (QA) team, supported by the ISCA Research team, conducted the inaugural SSQC 1 survey from August to September 2013 to understand the state of implementation of SSQC 1 by small and medium-sized practices (SMPs) in Singapore. This will further aid ISCA to develop more effective programmes and initiatives to support SMPs in implementing

SSQC 1 successfully. The survey received responses from 87 SMPs.

#### RESPONDENTS' PROFILE

There are two categories of survey respondents: **Group 1** SMPs which have embarked on SSQC 1 implementation (53 firms), **Group 2** SMPs which have yet to embark on SSQC 1 implementation (34 firms).

The firms in both groups are mostly sole proprietorships (Figure 1) and have been operating for more than 15 years. The majority of these firms have one to five partners, and have fewer than 10 professional staff. The results of the survey revealed that some of the smaller firms have implemented SSQC 1 in varying degrees.

#### STATE OF SSQC 1 IMPLEMENTATION

About 62% of the firms surveyed in Group 1 (Figure 2) have commenced SSQC 1 implementation since 2012. In recent years, firms have increasingly emphasised the establishment of quality control policies and procedures to improve the quality of their engagements. The findings also showed that about 65% of the firms in Group 1 have assigned the operational responsibility of the firm's quality control system to the firm's Managing Partner or sole practitioner, who has the highest authority in the

firm. It is encouraging to know that the right tone is being set at the top. Most of the firms in Group 1 (Figure 3) are at different stages of SSQC 1 implementation. In particular, more than 30% of them are at the final stage of implementation for all SSQC 1 elements. It is very likely that these





There are four stages of SSQC 1 Implementation and the primary activities of each stage are described below:

**Stage 1: Design and Planning**

Estimating resource needs, assessing SSQC 1 requirements, reviewing current quality control system and identifying the gaps

**Stage 2: Development and Documentation**

Developing quality control system as well as creating forms and templates for documentation

**Stage 3: Communication and Execution**

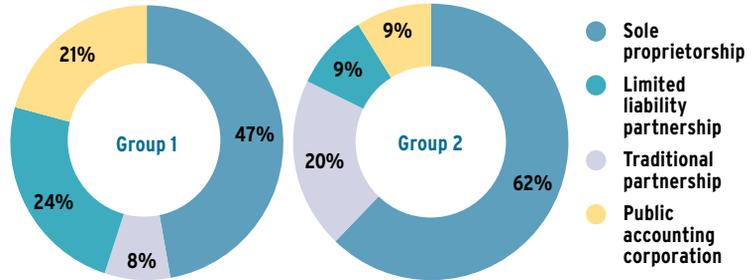
Communicating quality control system to personnel and incorporating quality control policies and procedures into the firm's operation

**Stage 4: Monitoring and Evaluation**

Monitoring the compliance of quality control system and evaluating improvement areas

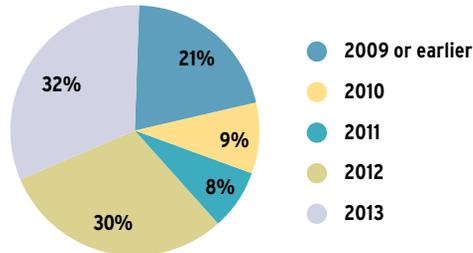
**FIGURE 1**

**RESPONDENTS' PROFILE - TYPES OF FIRM**



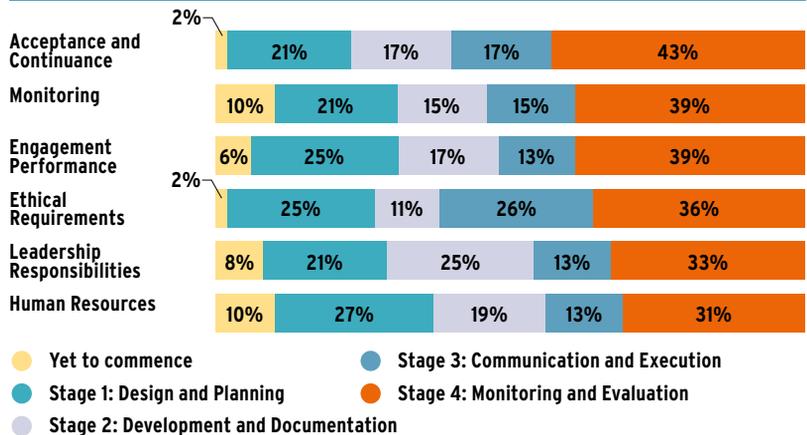
**FIGURE 2**

**GROUP 1: COMMENCEMENT TIMELINE FOR SSQC 1 IMPLEMENTATION**



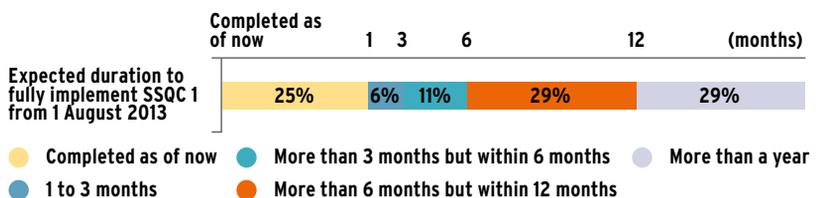
**FIGURE 3**

**GROUP 1: STAGES OF IMPLEMENTATION**



**FIGURE 4**

**GROUP 1: STAGES OF IMPLEMENTATION**



# TECHNICAL EXCELLENCE

SSQC 1 SURVEY

FIGURE 5

## GROUP 1: TOP 2 PRIORITIES OF SSQC 1 ELEMENTS FOR IMPLEMENTATION

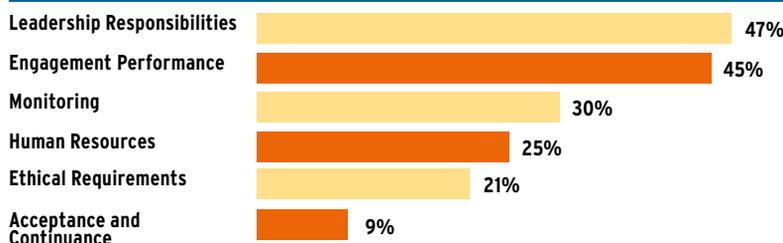
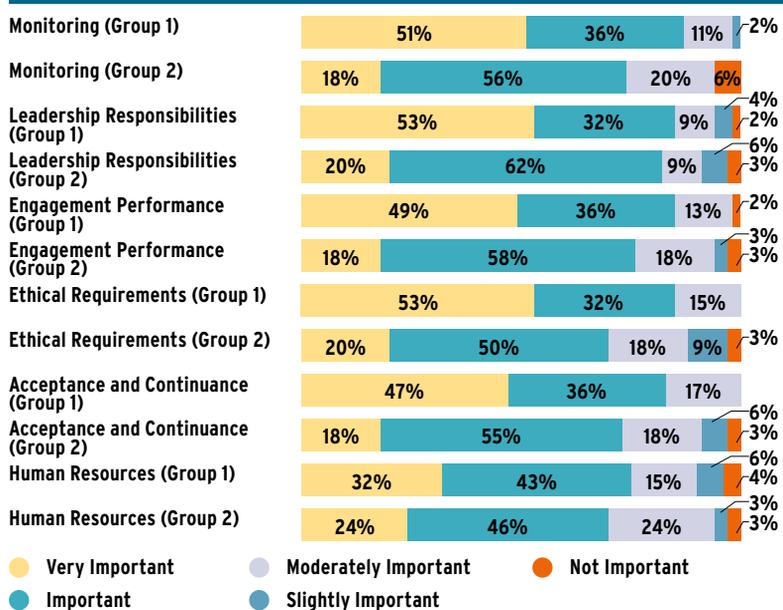


FIGURE 6

## GROUP 1 & GROUP 2: LEVEL OF IMPORTANCE FOR SSQC 1 ELEMENTS



firms will complete the SSQC 1 implementation in the near future. Of note, about 43% of the firms are at the final stage of implementing the “Acceptance and Continuance of Client Relationships and Specific Engagements” element of SSQC 1. This finding suggests that greater emphasis is being placed on proper management of client risks. It could also be due to the lower level of complexity for implementation compared to other SSQC 1 elements.

Consistent with the above findings, 46% of firms in Group 1 expect their firms to fully implement SSQC 1 within the next 12 months from 1 August 2013 (Figure 4).

## TOP PRIORITIES OF SSQC 1 ELEMENTS FOR IMPLEMENTATION

About 47% of the firms in Group 1 (Figure 5) have selected “Leadership Responsibilities for Quality within the Firm” as the top priority element for implementation or enhancement. This is hardly surprising as the right tone at the top is crucial for implementing SSQC 1 successfully; it will also help the firm to cultivate a quality-oriented culture.

The second top priority is “Engagement Performance” as the firms believe that this element will have the most direct impact on the quality of the firm’s engagements.

For example, if the firm’s engagement does not have proper planning, supervision and review (which is required under SSQC 1 – Engagement Performance), the significant risks of the engagement may not be adequately addressed and incorrect audit procedures may be applied.

## MOST IMPORTANT SSQC 1 ELEMENTS

The drive to implement SSQC 1 is highly dependent on the perception of importance of SSQC 1 in raising the quality of the firm’s engagements and practice. This is demonstrated by the survey findings. For firms in Group 1 which have embarked on SSQC 1 implementation, the majority of them (Figure 6) have rated the respective elements as “very important”, whereas the perceived degree of importance is lower for the firms in Group 2.

In addition, about half of the firms in Group 1 are of the view that all elements of SSQC 1 are of great importance except for “Human Resources” (about 32%). This is somewhat surprising given that human capital is one of the key drivers for high quality work in a public accounting firm. This finding may warrant further research.

The survey findings also indicate that only a small percentage of the firms in Groups 1 and 2 (less than 5%) find the six elements of SSQC 1 not important. This could be due to a lack of understanding of the SSQC 1 elements by these firms. It could also be a tell-tale sign that a small group of the firms does not keep abreast of the quality control standards, suggesting that they do not manage the audit risk proactively. Some sort of enforcement action continues to be necessary.

## SSQC 1 IMPLEMENTATION CHALLENGES

There are two major challenges faced by SMPs in implementing SSQC 1. Firstly, the firms may not have adequate expertise and knowledge of SSQC 1. Secondly, the firms may face time constraints due to their limited human resources.

On the first challenge, about 25% of the firms in Group 1 (Figure 7) cited the implementation to be “very and extremely challenging”. Among the firms in Group 2, about 35% of them thought the implementation to be “very and extremely challenging”.

On the other hand, about 49% of the firms in Group 1 and 76% of the firms in Group 2 rated the second challenge as “very and extremely challenging”. These ratings stood higher compared to the first challenge. This could be due to the limited number of professional staff in their firms as a majority of these firms have fewer than 10 professional staff. In addition, this could also be attributed to ISCA’s ongoing support and guidance provided to the firms in the last few months, which include publications and workshops, to enhance their understanding of SSQC 1.

In addition, it was found that a

relatively lower percentage of the firms in Group 1 rated both challenges as being “very and extremely challenging”. This may imply that if the firms have embarked on SSQC 1 implementation, these two challenges may not be as challenging as what the firms had originally perceived. With a mindset change, the firms can overcome these challenges and implement a quality control system effectively by embracing the spirit of SSQC 1.

### MOST DIFFICULT SSQC 1 ELEMENTS FOR IMPLEMENTATION

The majority of the firms in both Groups 1 and 2 (Figure 8) selected “Human Resources” and “Monitoring” as the most difficult SSQC 1 elements to implement. For “Human Resources”, the firms highlighted that they have

difficulties recruiting staff of the right calibre and that they face high staff turnover. For “Monitoring”, the firms cited a lack of experienced staff with the appropriate level of authority to conduct monitoring as the culprit for making implementation difficult. For smaller firms with limited resources, it is challenging to assign personnel with sufficient authority, experience and objectivity to perform the monitoring procedures.

### LEVERAGING ON ISCA'S INITIATIVES ON SSQC 1 IMPLEMENTATION SUPPORT

To kickoff SSQC 1 implementation, SMPs are encouraged to leverage on the support provided by ISCA. There are numerous programmes launched by the ISCA QA team since 2012. These programmes include the issuance of comprehensive practice guides with illustrative policies and procedures which can be customised, as well as forms and templates that can help SMPs demonstrate compliance with SSQC 1. In addition, SMPs can also obtain guidance and gain a deeper understanding of the SSQC 1 implementation process at various workshops organised by the ISCA QA team. There is also a series of articles published in the *IS Chartered Accountant* journal to enhance SMPs’ understanding and appreciation of the elements of SSQC 1. These articles have recently been compiled into a booklet for easy reference. Other than these activities, the ISCA QA team will continue to roll out more programmes in 2014 to support SMPs in implementing SSQC 1 effectively for sustainable growth founded on quality. ISCA

In *IS Chartered Accountant*, December 2013 issue, we explored various solutions to address the challenges in implementing SSQC 1 in the article of “Implementing SSQC 1 for Sole Practitioners – Challenges and Solutions (Part 2)”. Please refer to this article to learn more about the proposed solutions.

Jason Pang is Quality Assurance Manager, ISCA. For further details of ISCA’s initiatives supporting SSQC 1 implementation - SSQC 1 Practice Guides, SSQC 1 workshops and others, please contact our Quality Assurance team at [qualityassurance@isca.org.sg](mailto:qualityassurance@isca.org.sg).

FIGURE 7

LEVEL OF CHALLENGE	1 <sup>ST</sup> CHALLENGE: LACK OF EXPERTISE AND KNOWLEDGE OF SSQC 1		2 <sup>ND</sup> CHALLENGE: TIME CONSTRAINTS DUE TO LIMITED MANPOWER RESOURCES	
	GROUP 1	GROUP 2	GROUP 1	GROUP 2
Very & Extremely Challenging	25%	35%	49%	76%
Moderately Challenging	40%	38%	26%	12%
Least & Somewhat Challenging	35%	27%	25%	12%

FIGURE 8

