

Chapter - 1 "Quality Control"

(Lecture No. 2)

(4) SQC-1 :

(A) Leadership Responsibilities

(B) Ethical Requirements

(C) Independence

(D) Acceptance and Continuance of client relationship and specific Engagements:

- Considerations as to Integrity of clients: Learning + Noting - H.W.

(a) Identity and reputation - Owner, Key Mngt, TCG

(b) Info. - attitude - O/M/TCG - Matters - Aggressive Interpretation - As / J.C.

(c) Indication - Inappropriate Limitation.

(d) " - Client - Money laundering / Criminal Activities

(e) Nature of client's operations | business practices

(f) Aggressively concerned - firm's fees - as low as possible.

(g) Reason - non-appointment of previous firm.

- Considerations as to Capabilities, Competency, Time and Resources: (Learning + Noting - H.W)

(a) Personnel - knowledge - Industry / subject Matter

(b) " - Experience - regulatory / reporting requirements

(c) Firm - sufficient personnel - necessary C/C

(d) Experts - availability

(e) EQC Reviewer - availability.

(f) Ability to - reporting deadlines.

(E) Human Resources: Firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competency and commitment to ethical principles to perform the engagement.

Assignment of ET:

Firm should establish policies and procedures requiring that:

- (a) Identity and Role of EP - Communicated to client mgmt. and TCWG.
- (b) EP must possess appropriate competency, capability, authority and time to perform the engagement.
- (c) Responsibility of EP should be clearly defined and communicated.

(F) Engagement Performance:

(i) Direction, supervision and Review: (Not covered in SM)
- Refer Q. No. 5 and 6

(ii) Consultation: - to be obtained on difficult matters.
- with those having appropriate knowledge and experience (within the firm or outside the firm).
- maintain complete and proper documentation on:
(a) Issues involved; and
(b) Result of such consultation.

(iii) Engagement Quality Control Review (EQCR):

- EQCR is mandatory for audit of f.s. of listed entities.
- Extent of EQCR depends upon complexity of engagement.
- EQC reviewer, should be a distinctly External Qualified person such as a

Partner / Employee of firm (Need to be a Member of ICAI).

- Ensure objectivity of EQC Reviewer.

To ensure objectivity, participation of EQC Reviewer in engagement or making decisions for ET is to be avoided at all cost.

- firm policies should provide for the replacement of EQC Reviewer where ability to perform an objective review may be impaired.

Imp:

Matters to be considered in EQCR for audit of F.S. of listed Entities:

(Learning + Noting - H.W.)

- ET Evaluation of Independence
- Significant risk and responses
- Judgements - Materiality and significant risk
- Conversations
- Significance/disposition - Misstatements
- Matters communicated to Mgmt / TCGA / Reg. authorities
- Working Papers
- Appropriateness of report to be issued.

(iv) Differences of opinion: opinion may differ in relation to certain matters among ET Members; with consultants; with EQC Reviewer. Ensure that reports are to be issued only after resolution of differences.

(v) Documentation: - Documentation should be completed on a timely basis; For Ex: within 60 days from the date of report in case of audit engagements.

- Ensure Confidentiality, safe custody, integrity and recoverability of documents.

- Documentation is the property of auditor and extracts may be made available to client at discretion of the auditor.
- Documentation should be retained for a specific period;
For Ex: 7 years from the date of report in case of audit.

Documentation of EQCR Reviewer:

Policies and procedures on documentation of EQCR should require documentation that :

- Procedures on EQCR have been performed;
- EQCR has been completed before the report is issued;
- Reviewer is not aware of any unresolved matter that would cause him to believe that significant judgements and conclusions were not appropriate.

(G1) Monitoring: It involves ongoing consideration and evaluation of firm system of Quality Control, to ensure their relevancy; adequacy; operating effectiveness; and compliance within practice.

Imp:

Factors to be considered in monitoring of Q.C: (Learning and Noting - H.W.)

- Q.C. System - designed and effectively implemented.
- New Development - Pro. Stds, legal Reg. req. - reflected in Q.C. Policies.
- Monitoring - Conducted - Partner / person - sufficient and app - Experience and authority.
- Dealing with Complaints and Allegations
- Taking remedial action - personnel - did not conform to Q.C. Policies
- " Corrective action - deficiencies in designing of Q.C. system - identified.

(5) SA-220 "Quality Control for an audit of f.s."

Objective of auditor: To implement Q.C. procedures at Engagement level to ensure that (a) Audit complies with professional standards and regulatory and legal requirements; and (b) Audit report issued is appropriate in the circumstances.

Note: SA 220 is premised on the basis that firm is subject to SQC-1.

Element of Q.C. Procedures:

- (A) Leadership responsibilities
- (B) Ethical Requirements
- (C) Acceptance and Continuance of client relationship
- (D) Assignment of ET
- (E) Engagement Performance.
 - Direction, supervision and Review
 - EQCR
 - Consultation
 - Diffences of opinion
- (F) Monitoring
- (G) Documentation

Reading from Book

