

# SQC 1

## QUALITY CONTROL FOR FIRMS THAT PERFORM AUDIT AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

### PURPOSE

To establish standards and provide guidance regarding the firm's system of quality control, which is to be designed to provide it with reasonable assurance that the firm complies with all professional and regulatory requirements, and the reports issued are appropriate in the circumstances.

### KEY TERMS

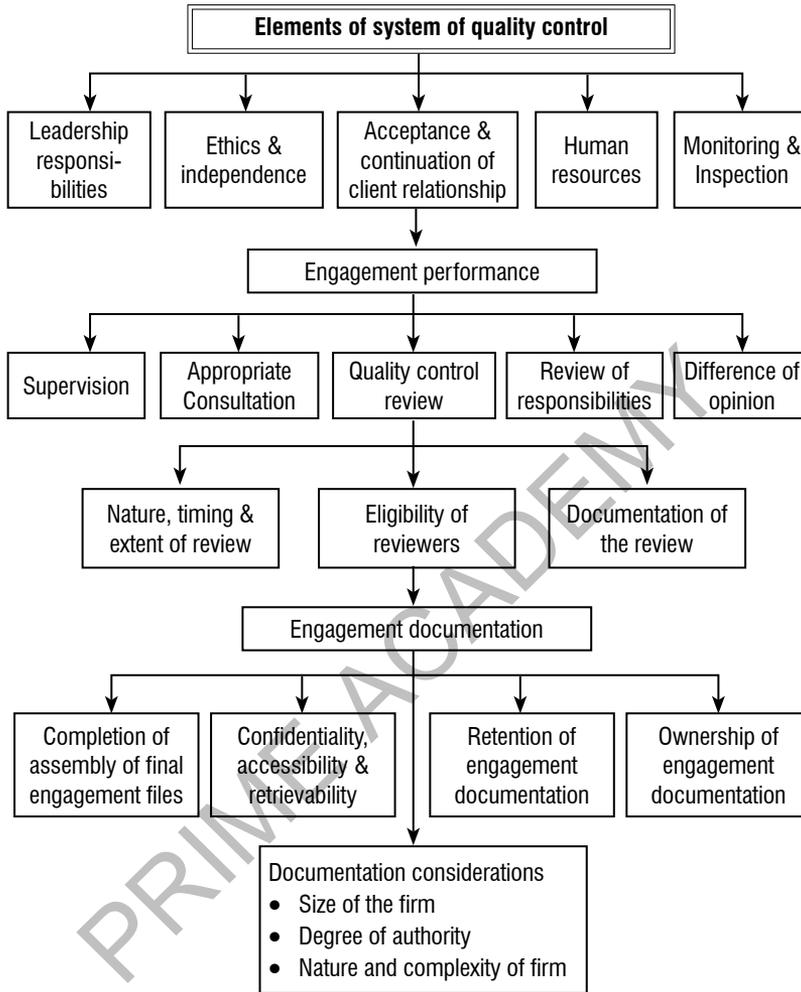
- **Engagement documentation** – the record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are also sometimes used). The documentation for a specific engagement is assembled in an engagement file.
- **Engagement Partner** – the partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- **Engagement quality control review** – a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
- **Engagement quality control reviewer** – a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.

- **Engagement team** – all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
- **Firm** – a sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.
- **Inspection** – in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures.
- **Listed entity** – an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.
- **Monitoring** – a process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
- **Network firm** – an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
- **Partner** – any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- **Personnel** – partners and staff.
- **Professional standards** – engagement standards, as defined in the AASB’s “Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” and relevant ethical requirements as contained in the Code.
- **Reasonable assurance** – in the context of this SQC, a high, but not absolute, level of assurance.
- **Staff** – professionals, other than partners, including any experts which the firm employs.
- **Suitably qualified external person** – an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

**Effective Date**

April 1, 2009

## DIAGRAMMATIC REPRESENTATION



## SYNOPSIS

This Standard provides guidance in relation to quality control procedures and policies to be adopted by the firm in order to provide reasonable assurance that it complies with relevant regulations and reporting requirements. The key elements of the system of quality control in a firm should include issues like:

- Leadership responsibilities
- Ethical requirements
- Acceptance and continuance of client relationship
- Human resources
- Engagement performance
- Monitoring

All the above-mentioned key elements should be addressed while formulating a quality control policy and should be communicated to the firm's personnel.

### **LEADERSHIP RESPONSIBILITIES**

The firm's CEO or Managing Partner should assume ultimate responsibility for the firm's system of quality control. The importance of a quality oriented work culture is to be emphasized by all levels of firm's management in order to ensure compliance with professional and regulatory standards and to ensure effective reporting appropriate to circumstances. Such emphasis shall be placed through training, seminars and meetings and also incorporated in the internal documentation. Constant appraisal should also be ensured to reinforce the firm's view on the importance of quality.

The firm's quality consideration should not be overridden by commercial consideration and business strategies. The person who is assigned the responsibility for the firm's quality control system by the CEO or Managing partners should possess sufficient and appropriate experience and the necessary authority to assume that responsibility.

### **ETHICAL REQUIREMENTS**

Ethical considerations established in the Code of Conduct includes:

- Integrity
- Objectivity
- Professional competence
- Confidentiality
- Professional behavior
- Independence

In order to maintain independence the firm shall communicate the independence requirements to its firm personnel, identify and evaluate the relationships that create threat to independence and if required withdraw from the engagement. The firm shall also establish policies and procedures that require:

- The identifications of threats to independence
- Personnel to promptly notify the threat and appropriate action is taken
- Breaches of independence are identified and appropriate action is taken
- Written confirmation shall be obtained from the firms on compliance with policies and procedures on independence
- The rotation of engagement partners after a specified period in compliance with the code in order to safeguard from familiarity threats (7 years in case of listed companies).

### **ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIP**

On acceptance of client relationship or on deciding on the continuance of existing relationship, the following factors are to be considered:

- Clients integrity tested through various sources
- Competence to perform the engagement, like regulatory and industry knowledge in regard to the engagement.

- Availability of time and resources
- Compliance with ethical requirements

If the firm obtains information at a later date that would have caused a decline of engagement at an earlier date the firm should discuss with the appropriate level of client's management and consider withdrawal from the engagement.

## **HUMAN RESOURCES**

An effective system of quality control in a firm should consider the following:

- Recruitment process to select individual of integrity
- Firm's performance evaluation, compensation and promotion procedures to recognize personnel who are competent and committed to ethical principles
- Development of capabilities, competence through professional education and continuous training
- Career development and estimation of personnel needs

The firm should assign responsibility for each engagement to an engagement partner and ensure that:

- Identity and role of engagement partner are communicated to the client's management
- The engagement partner has competence and authority
- The responsibilities are clearly defined and communicated to that partner.

## **ENGAGEMENT PERFORMANCE**

The firm should establish a system of quality control that provides reasonable assurance that the engagements are performed in accordance with professional standards and regulatory and legal requirements. The following factors are to be considered:

- Understanding the requirements of the engagement and objective of work
- Process for compliance with applicable engagement standards
- Supervising the progress of the engagement
- Reviewing the responsibilities of team members and firm personnel
- Consultation with appropriate personnel within or outside the firm or experts
- Dealing with differences of opinion within the engagement team or between engagement partner and engagement quality control reviewer. The report shall not be issued without resolving the conflict.

The firm should also review engagement's quality control system before the issue of report. The review procedures shall take into consideration:

- Nature and extent of quality control review, involving independence evaluation, analysis of risks, judgments and materiality, significance and disposition of misstatements, working papers review and appropriateness of report issued.
- Criteria for eligibility of quality control reviewer, considering technical expertise required to perform the role and degree to which the reviewer can be consulted. The quality control reviewer shall not be selected by the engagement partner and shall not participate with the engagement during the period of review.
- The review shall be documented

The process of engagement documentation as part of system of quality control shall involve the following:

- Completion of assembly of final engagement files on timely basis after the reports is finalized. Generally in case of audits, the time limit is not more than 60 days.
- Ensuring confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
- Ensuring retention of engagement documentation as per firm's policy or as required by law or regulation. In case of audit the normal period of retention is 10 years. However, the retention period of 10 years has been revised pursuant to the council's decision, according to which the normal period of retention has been prescribed as 7 years.
- Ensure that the engagement documentation is always the property of the firm. The firm may, at its discretion, make portions of their documentation available to clients.

## **MONITORING**

The system of quality control shall establish policies and procedures to monitor the effectiveness of engagement performance and ongoing evaluation of the quality control system. The ongoing evaluation shall consider:

- Design, effective implementation and appropriate application of quality control system
- Analysis of new developments in professional standards and legal standards.
- Corrective actions and improvements to be made in the system and communication of weaknesses identified.
- Inspection of completed engagements that shall include atleast one engagement for each partner over the inspection cycle of not more than 3 years.

The deficiencies identified should be communicated to the engagement partner along with the remedial action that would require changes in quality control policy. The complaints and allegations against the firm as regards to the non-compliance of professional standards or allegations of non-compliance of firm's system of quality control shall be dealt with either as per legal regulations or by taking appropriate remedial action.

## **DOCUMENTATION**

The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. The firm may use electronic databases or use of simple checklists, manual notes and forms depending on:

- The size of the firm and the number of offices.
- The degree of authority both personnel and offices have.
- The nature and complexity of the firm's practice and organization.

The firm shall retain the documentation as per the firm's policy or in compliance with the requirements of laws or regulations.