

# International Standard on Quality Control 1 (“ISQC 1”)



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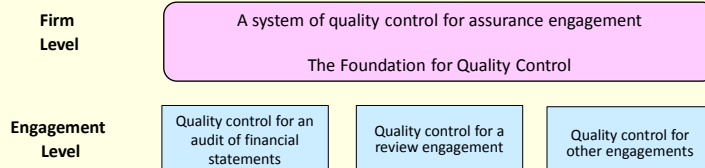
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# International Standard on Quality Control 1 (“ISQC 1”)

The objective is to establish and maintain a system of quality control to provide with reasonable assurance that:

- a) A firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- b) Reports issued by the firm or engagement partners are appropriate in the circumstances.



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## Elements of the Quality Control in ISQC 1

Policies and procedures should be established to provide the firm with reasonable assurance:

1. Leadership responsibilities for quality	To inculcate the culture within the firm that recognise the quality is essential. Example: Advise staff of firm policy and ethics timely
2. Ethical requirement	The firm complies with ethical requirement. Example: Every staff need to provide independent certificate before commencement engagement
3. Acceptance and continuance of clients engagements	The firm is to minimise the engagement with a client that lacks of integrity. Example: Develop and comply with client acceptance's checklist.



## Elements of the Quality Control in ISQC 1

Policies and procedures should be established to provide the firm with reasonable assurance:

4. Human resources	The firm has sufficient personnel with appropriate capabilities to produce high quality job Example: Engagement to be assigned to the appropriate partner and staff
5. Engagement performance	The work performed meets applicable professional standards and legal requirement. Example: Established and adhered to procedures on how to resolve differences of opinion.
6. Monitoring	The policies and procedures for each of element are suitable, relevant and being complies by members. Example: Updating of the relevant policies or procedures where necessary.
7. 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

## International Standard on Quality Control 1 (“ISQC 1”)

Specific considerations for small and medium-sized practices



## Key issues for small and medium-sized practices



Area	Issues	Suggested solution
Leadership	<ul style="list-style-type: none"> <li>➤ No one in the firm other than myself (or maybe one/two others) who is qualified to take on the QC leadership responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>➤ the sole practitioner/managing partner/assurance partner will be required to assume all of the QC leadership roles; or</li> <li>➤ employ suitably qualified persons from outside the firm to provide leadership in specialised areas, such as monitoring, EQCR and IT</li> </ul>

## Key issues for small and medium-sized practices



Area	Issues	Suggested solution
Review of working papers	<ul style="list-style-type: none"> <li>➤ No one in the firm other than myself who can review the work that I perform and the work of less experienced team members</li> </ul>	<ul style="list-style-type: none"> <li>➤ On small, non-complex and low risk engagements, it is perfectly acceptable for the practitioner to perform both the detailed and general file reviews</li> <li>➤ For complex or high-risk client, a suitably qualified person is recommended to be hired to perform an engagement quality control review</li> </ul>



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## Key issues for small and medium-sized practices



Area	Issues	Suggested solution
Consultation	<ul style="list-style-type: none"> <li>➤ No one in the firm to consult with on difficult or contentious matters</li> </ul>	<ul style="list-style-type: none"> <li>➤ Establish policies and procedures on what difficult or contentious matters require consultation</li> <li>➤ Build an informal network of contacts that can be called upon as required to provide expert advice</li> </ul>
Engagement quality control review (EQCR)	<ul style="list-style-type: none"> <li>➤ There are no high-risk or complex clients that would require an engagement quality control review to be performed</li> </ul>	<ul style="list-style-type: none"> <li>➤ ISQC 1 simply requires firms to establish own criteria when an engagement would be subject to an EQCR</li> <li>➤ These criteria may mean that none of the firm's audit engagements would be subject to such a review, except, listed entities</li> </ul>



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## Key issues for small and medium-sized practices



Area	Issues	Suggested solution
Monitoring	<ul style="list-style-type: none"> <li>All our partners and senior staff have been involved in some way in performing our assurance engagements. Does that mean we always have to hire an outside party to serve as our monitors?</li> </ul>	<ul style="list-style-type: none"> <li>ISQC 1 requires firms to establish a monitoring process that has two key elements:               <ol style="list-style-type: none"> <li>an ongoing consideration and evaluation of the firm's system of quality control; and</li> <li>on a cyclical basis, inspection of at least one completed engagement for each engagement partner</li> </ol> </li> <li>Firms can self-monitor in respect of (1) → internally</li> <li>For (2), a person not involved in performing the assurance engagement (including EQCR) to perform the completed file inspection → may need to hire an external person</li> </ul>



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## Key issues for small and medium-sized practices



Area	Issues	Suggested solution
Documentation	<ul style="list-style-type: none"> <li>What is the minimum level of documentation required to demonstrate compliance with the firm's policies and procedures?</li> </ul>	<ul style="list-style-type: none"> <li>ISQC 1 requires firms to prepare documents that provide evidence of the operation of each element of its system of quality control</li> <li>The documentation required will be less extensive for a small firm</li> <li>Exact nature of documentation is a matter of professional judgment</li> <li>Simple guideline → the documentation is sufficient enough to be understood by an experienced policy monitor or an engagement file inspector</li> </ul>



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## Highlight of issues raised by the HK Practice Review in 2013 Assurance Report

### (a) Quality control policies and procedures

ISQC 1 has been effective for number of years. Many initial practice reviews still reveal Practices that do not have quality control policies and procedures to address the requirements of ISQC 1 (Clarified). It is also found that some practices introduced quality control policies and procedures for the first time just prior to the practice review.



## Highlight of issues raised by the HK Practice Review in 2013 Assurance Report



### (b) Monitoring function

Monitoring is required to be carried out regardless of the size or nature of a Practice's client base. Practice reviews of small Practices still frequently reveal that they have not carried out any monitoring. The most common explanation given is that Practices cannot find a suitable and competent external monitor to carry out a review.

In some cases, it identifies that:

- when there was no documentation to evidence the monitoring review;
- where the review was performed by an individual without appropriate technical expertise or authority;
- where engagement reviews covered only simple or dormant engagements;
- where there was no follow up action taken to address findings identified by the monitoring review;
- where the monitoring review had no or few findings but our review of the same engagements identified a number of findings; and
- where the frequency of the monitoring review does not match the requirement of ISQC 1 (i.e. annually for review of the quality control system and a cycle of no more than 3 years for engagement reviews)

## Highlight of issues raised by the HK practice review in 2013 Assurance Report

### (c) Engagement quality control (EQC) reviews

There was often limited evidence to show that the EQC reviewer had adequate involvement in the audit, for example:

- Other than signing the EQC review checklist, there was no other documentation on file to evidence the extent of work undertaken by the EQC reviewer, particularly on key judgement and risk areas;
- Engagement time records showed that little time was spent by the EQC reviewer; and
- The EQC review was completed after the audit report date.



## Highlight of issues raised by the HK practice review in 2013 Assurance Report

### (d) Client and engagement acceptance and continuance

Common issues identified in relation to client and engagement acceptance and continuance were as follows:

- Replies to professional clearance request letters were received after engagements were accepted and/or engagement letters were sent;
- The implications of disclaimer opinions issued by predecessor auditors because of limitations of scope imposed by management were not considered;
- No action was taken to resolve matters giving rise to modified opinions issued for the prior period; and
- Engagement letters were outdated and not revised to address the requirements of HKSA 210 (Clarified).



# The End....thank you



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