

QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS – (S.L.Au.S – 220)

A) Introduction

The objectives of the Audit Firm is to establish and maintain a system of Quality Control to provide with a reasonable assurance that;

- a) The firm and its personnel comply with Professional Standards and applicable legal and regulatory requirements.
- b) The reports issues by the Firm or Engagement Partners are appropriate in the circumstances.

The ultimate objective of an audit engagement is to provide an appropriate audit opinion supported by the necessary evidence and judgements. Quality Control Procedures can be established in two stages.

a) At the individual Audit Level.

Consider the **individual audits** separately and prepare the procedures to enhance the quality of the professional service provided to the clients.

b) At the Overall Audit Level.

Consider the Audit Firm as one unit and prepare the procedures to enhance the quality of the professional services provided to the clients.

B) What are Quality Control Procedures

“The policies and procedures implemented both at the Individual Audit Level and Overall Audit Level, with the view of enhancing the Quality of the Professional Services provided to the Clients” can be defined as Quality Control Procedures.

C) Important points to consider

Engagement Partner

“The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's 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, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report”. The engagement quality control review process is for audits of financial statements of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.

Engagement Quality Control Reviewer

“A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report”.

D) Requirement of Quality Control/ Steps of Quality Control

Requirement 01: Leadership Responsibility for Quality Control

The Audit Firm should establish policies and procedures designed to promote an internal culture recognizing that the quality is an essential factor in performing engagements. In order to do that, someone from the audit firm, (either the Managing Partner or Senior Partner/s) should take the ultimate responsibility for the Firm's system of Quality Control.

The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasize the firm's quality control policies and procedures.

Requirement 02: Relevant Ethical Requirements

The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The fundamental principles of professional ethics, which include:

- Independence** - The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by relevant ethical requirements. Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards.
- Integrity** - to be straightforward and honest in all professional and business relationships.
- Objectivity** - to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- Competence and Due Care** - to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- Confidentiality** - to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal

or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

- f) **Professional Behaviour** - to comply with relevant laws and regulations and avoid any action that discredits the profession.

Requirement 03: **Acceptance and Continuance of Client Relationships and Specific Engagements**

The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm is complying with below requirements.

- a) Competencies, Capabilities, and Resources of the Firm to accept the new engagements and to continue the existing engagements.
- b) Integrity of the client - Factors to be considered are as follows.
 - 1) The identity and business reputation of the client's principal owners, key management, and those charged with its governance.
 - 2) The nature of the client's operations, including its business practices.
 - 3) Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.

Requirement 04: **Human Resources & Work Allocation**

The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:

- a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
- b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
- c) Effective recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently.

Requirement 05: **Engagement Performance**

The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances.

- a) The Engagement Partner needs to take the responsibility for **Direction, Supervision** and **Review** of the Engagement with Professional Standards and applicable legal and regulatory requirement.

Direction - Engagement Partner needs to explain the Objectives of the Audit Procedures to the team and to explain the areas where the issues can be taken place.

Supervision - Engagement Partner needs to obtain an understanding on the areas where the team is having issues and already identified issues.

Engagement supervision includes the following:

1. Tracking the progress of the engagement.
2. Whether the Audit Team understand the instructions and whether the work is being carried out in accordance with the planned approach to the engagement.
3. Addressing significant matters arising during the engagement, considering their significance, and modifying the planned approach appropriately.

Review - A review consists of

- i) consideration of whether legal and regulatory requirements were met,
- ii) whether the work has been performed in accordance with professional standards and applicable regulatory framework,
- iii) whether the audit team obtained sufficient and appropriate audit evidence,
- iv) whether all these are properly documented,
- v) whether the procedures performed are in line with the evidence obtained and the conclusions reached are in line with the audit evidence obtained.

b) Consultation

The Engagement Partner shall take the responsibility for the engagement team, undertaking the appropriate consultation on difficult matters. Be satisfied that the members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and outside the engagement team.

c) Perform Engagement Quality Control Review

Engagement Quality Control Reviewer needs to perform an Objective Evaluation of the significant judgements made by the engagement team and the conclusion reached when formulating the Audit Report.

Requirement 06: **Review and Monitoring**

An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that the policies and the procedures relating to the system of quality control are relevant, adequate, and operated effectively. Therefore, the Engagement Partner needs to consider the results of the monitoring process as an evidence to make sure that the proper procedures are implemented in order to enhance the quality of the professional services rendering the clients.

E) Advantages of Quality Control

- 1) Ability to reduce the Audit Risk to a acceptable level.
- 2) Facilitate the audit firm to have a effective utilization of the limited resources such as time, manpower.
- 3) Facilitate to provide a professional standard at the highest level.
- 4) To provide it with reasonable assurance that the firm & its personal comply with professional starboard & applicable legal & regulatory requirements.
- 5) To ensure that the reports issued by the firm or engagement partners are appropriate in circumstances