



# **International Standard on Quality Control CPA Guidance**

June 2005

# International Standard on Quality Control

Effective 15<sup>th</sup> June 2005

## ISQC (UK and Ireland) 1

The International Standard on Quality Control became effective from the 15<sup>th</sup> June 2005.

The emphasis in this standard is on the documentation and communication of internal quality procedures and policies. Audit firms must ensure that they have in place written and communicated policies on the following issues;

- Leadership responsibilities for quality within the firm
- Ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

The extent of the implementation of this standard will vary from practice to practice and will depend on many factors including size of practice, type of clients and staffing structures.

**However, one of the important things to remember is that all policies must be fully documented and communicated to staff.**

## Leadership Responsibilities for Quality Within the Firm

The firm should allocate a person with responsibility for the firm's quality control system. This person should have sufficient and appropriate experience, authority and ability.

This person could be the senior partner, audit compliance partner or in the case of a sole practitioner, the principle.

The firm's leadership should encourage a culture that recognises and rewards high quality work. Accordingly:

- The firm assigns its management responsibilities so that commercial responsibilities do not override the quality of work performed;
- The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, are designed to demonstrate the firm's overriding commitment to quality; and
- The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.

## Ethical Requirements

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. These should include the CPA Code of Professional Ethics and Conduct and the APB Ethical Standards. The APB Ethical Standards are effective for the audit of financial statements with periods commencing 15<sup>th</sup> December 2004. You should refer to the CPA website which contains full details of the standards together with CPA Guidance.

The fundamental principles of professional ethics include;

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour

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## Independence

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and the network firm personnel), maintain independence where required.

The policies established should enable the firm to;

- Communicate its independence requirements to its personnel
- Identify and evaluate circumstances and relationships that create a threat to independence. Ensure that appropriate action is taken to eliminate those threats (e.g. by applying safeguards or withdrawal from the engagement).

At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all its personnel.

Again, the APB Ethical Standards sets out comprehensive guidance on independence issues.

## Acceptance and Continuance of Client Relationships and Specific Engagements

The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will only undertake or continue engagements where it:

- Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- Is competent to perform the engagement and has the capabilities, time and resources to do so; and Can comply with ethical requirements.
- The assessment of the integrity of the client will begin with the initial meeting with the client and the professional clearance sought from the previous agent. Further assessment of the integrity of the client will develop over time.

It is important to note that when assessing the in-house resources available to complete an assignment, availability of adequate time is one of the important resources that needs to be assessed along with staff knowledge of the client and industry.

Many of these issues are dealt with in the various audit programmes that are available on the market, so firms may already find that they are in compliance with this aspect of the standard.

## Human Resources

The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its engagements.

The following issues should be addressed;

- Recruitment
- Performance evaluation
- Capabilities
- Competence
- Career development
- Promotion
- Compensation; and
- The estimation of personnel needs

## Engagement Performance

The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and that the firm issues reports that are appropriate.

The firm should seek to establish consistency in the quality of its engagements. Matters to be addressed are as follows;

- How engagement teams are briefed on the engagement
- Processes for complying with applicable engagement standards
- Processes of engagement supervision, staff training and coaching
- Methods of reviewing the work performed, the significant judgements made and the form of report being issued
- Appropriate documentation of work performed and of the timing and extent of the review
- Policies to keep all policies and procedures current

Appropriate policies should be established to ensure that consultation takes place on difficult or contentious matters.

Where differences of opinion occur within the engagement team, the firm should establish procedures for dealing with and resolving the issues.

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It should be assessed by each audit firm the extent to which engagement quality control reviews should be conducted. These reviews will evaluate the judgements made by the engagement team and the conclusions reached in formulating the report.

When deciding which audits should be the subject of an engagement review, the firm should consider the following factors;

- Nature of the engagement
- Identification of unusual circumstances or risks

Policies should also be adopted to set the nature, timing and extent of the quality control reviews and the criteria for choosing a reviewer. The level of documentation required should also be set.

## Monitoring

As with all good quality control procedures it is essential that all policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.

Any deficiencies noted in the system should be addressed immediately and it should be established whether the failure in the system is indicative of the operation of the entire system. Communication of all findings should be made to the relevant staff members. The results of monitoring should be made available to all appropriate staff at least annually.

Policies should be adopted to ensure that any complaints or allegations made against the firm are dealt with appropriately.

## Documentation

All policies and procedures adopted by the firm should be fully documented to provide evidence of the operation of each element of its system of quality control.

How each firm chooses to document their procedures will depend very much on the size of the practice. Methods such as manual notes, checklists and forms may be appropriate.

## Conclusion

Upon reviewing this standard many firms will find that they already comply with most or all of the standard. The use of standardised documents and outsourced audit programmes will assist.

Your firm should ensure that when reviewing compliance with this standard that the CPA Practice and Audit Regulations 2004 – Guidance for Members, is consulted. These regulations also require an annual compliance review to be conducted, this can be incorporated into your overall quality control procedure.

Queries on this standard should be directed to the Professional Standards Department of the CPA Institute at (01) 631 4665.



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