

A background image showing a business meeting. Several people are seated around a table, looking at documents and charts. A laptop is open on the left. The documents feature various data visualizations including bar charts, line graphs, and pie charts. One person in the foreground is holding a pen over a document. The overall scene is professional and focused on data analysis.

Compliance with framework of Quality Control

April 20, 2025

Agenda

- ❖ Objective and Applicability
- ❖ Components of quality Management
- ❖ Specific Controls
- ❖ Suggested Approach
- ❖ Key Challenges



»» Objective

Firm's responsibility for its system of quality control for:

- audits and reviews of historical financial information
- Other assurance and related services engagements

- The Chartered Accountants Act, 1949
- Code of Ethics
- Standard on Quality Management (SQM) 1 - Quality Management for Firms that Perform Audit or Reviews of Financial Statements, or Other Assurance or Related Service Engagements
- Standard on Quality Management (SQM) 2 - Engagement Quality Review
- Other relevant pronouncements of ICAI
- Other relevant legal/regulatory requirement

SQM 1 - Quality Management for Firms that Perform Audit or Reviews of Financial Statements, or Other Assurance or Related Service Engagements

■ Applicability

This SQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this SQM applies).

Systems of quality management in compliance with this SQM are required to be designed and implemented by **April 01, 2025 (Recommendatory) / April 01, 2026 (Mandatory)** and the evaluation of the system of quality management required by paragraphs 53-54 of this SQM is required to be performed within one year following April 01, 2025 / April 01, 2026

»» Annual Statement of Confirmation

This SQM requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 14(a) and (b) of SQM are being achieved.

Components of Quality Management

- Firm's Risk Assessment Process
- Governance and Leadership
- Ethical requirements
- Client acceptance/ continuance
- Engagement Performance
- Resources
- Information and Communication
- Monitoring and remediation process

SQM requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm.

»» Firm's Risk Assessment process:

- The firm shall design and implement a risk assessment process
- To establish quality objectives,
- To identify and assess quality risks and
- Design and implement responses to address the quality risks

»» Governance and Leadership

- Leadership is responsible
 - To promote internal culture:
 - Quality is essential in engagements
 - Work to comply with professional standards, regulatory/ legal requirements
 - Issue reports appropriate in circumstances
- Recognize & reward high quality work
- Communication, e.g.:
 - Training seminars/ Meetings
 - Formal/ informal dialogues
 - Mission statements/ Newsletters

>> Ethical Requirements

- Establish policies & procedures
- Firm & personnel comply with relevant ethical requirements
- Fundamental ethical principles:
 - Integrity
 - Objectivity
 - Professional competence & due care
 - Confidentiality
 - Professional behaviour

»» Client Acceptance / Continuance

- Establish policies/ procedures to ensure that clients are accepted/ continued only where:
 - Client integrity has been considered & no information that would lead to conclude that client lacks integrity
 - Firm competent to perform engagement - capability, time & resources
 - Can comply with ethical requirements
- Document how issues were resolved

Client Acceptance / Continuance - continued

Client integrity	Firm capabilities	Ethical issues
<ul style="list-style-type: none">▪ Identity / reputation of owners/ key management/ related parties▪ Nature of operations▪ Attitude of owners/ governing body towards internal controls▪ Aggressive towards maintaining firm's fee as low as possible▪ Indication of inappropriate scope limitation▪ Indications of money laundering▪ Non continuance of previous auditors	<ul style="list-style-type: none">▪ Industry knowledge among personnel▪ Experience of relevant regulatory/ reporting requirements▪ Ability to gain necessary skills▪ Availability of experts▪ Availability of individuals fulfilling the criteria▪ Ability to complete engagement within reporting deadline	<ul style="list-style-type: none">▪ Professional/ legal responsibilities applying in circumstances▪ Possibility of withdrawal - from engagement and/ or client relationship

Engagement Performance

- Establish policies/ procedures to get a reasonable assurance regarding :
 - Compliance with professional standards
 - Compliance with laws/ regulations
 - Engagement partner issues reports appropriate in the circumstances
- Aspects to be addressed by policies:
 - Briefing engagement teams
 - Process for complying with engagement standards
 - Process of supervision, staff training & coaching

Engagement Performance - continued

- Responsibility for each engagement to be assigned to engagement partner.
- Policies/ procedures to ensure that:
 - Role of engagement partner communicated to key personnel of client management and Those Charged with Governance (TCWG).
 - Engagement partner is capable and competent and has time and authority for engagement.
 - Responsibility of engagement partner clearly defined and communicated to him/ her.
- Tracking the process of engagement
- Considering capabilities, competence of individuals on team
- Addressing issues arising during the engagement
- Identifying matters for consultation & consideration by experienced members of team

Engagement Performance – continued

- Matters considered by reviewer
 - Performance of work in accordance with standards & legal/ regulatory requirements
 - Significant matters raised for further consideration
 - Consultations undertaken & results documented & implemented
 - Need to revise nature, timing & extent of work performed
 - Work supports conclusions reached & appropriate documentation
 - Sufficiency & appropriateness of evidence – supports the report
 - Achievement of engagement objectives

Engagement Performance - continued

- Establish policy/ procedures to achieve reasonable assurance:
- Appropriate consultation takes place on difficult or contentious matters;
- Sufficient resources are available to enable appropriate consultation to take place;
- The nature and scope of such consultations are documented; and
- Conclusions resulting from consultations are documented and implemented.

Engagement Performance - continued

- Consultation procedures to require:
 - Consultation with appropriate personnel
 - Knowledge
 - Seniority
 - Experience
 - Documentation & implementation of decisions of consultation
- External consultation:
 - Other firms
 - Professional & regulatory bodies
 - Commercial organisations that provide relevant quality control services

Engagement Performance - continued - Engagement QC Review

- Essentials of these policies/ procedures:
 - Require QC review for all audits of financial statements of listed companies.
 - Nature, timing & extent of review
 - Eligibility criteria for QC reviewer
 - Documentation requirements
- Establish criteria for QC review of all other audits/ reviews of historical financial information & other assurance & related service engagements.

»» Engagement QC Review - continued

- Require QC for engagements covered by criteria above.
- Require completion of engagement before QC review.
- Provide for replacement of QC reviewer if his ability to perform objective review is impaired.

Nature, timing & extent of QC review

- Review involves:
- Discussion with engagement partner
- Review of financial statements & report
- Review of selected working papers – significant judgments & conclusions of team
- Extent of review depends upon complexity of engagement & risk of inappropriate report in the circumstances.
- Review does not reduce responsibility of engagement partner.

Engagement QC Review - continued

Eligibility criteria for QC reviewer

- Policies/ procedures to address:
- Appointment of QC reviewer
- Establish eligibility
 - Technical qualifications required – experience & authority
 - Degree to which QC reviewer can be consulted on engagement without compromising his objectivity
- Maintaining QC reviewer's objectivity:
 - QC reviewer not selected by engagement partner
 - No participation in engagement during period of review
 - Does not make decisions for engagement team
 - Not subject to conditions threatening his/ her objectivity

Engagement QC Review - continued

Policies/ procedures to require:

- Procedures on engagement QC review have been performed;
- QC review has been completed before the report is issued; and
- reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Assembly of Files

- Policies/procedures for completion of final engagement files on a timely basis after finalization of engagement reports
- Two or more reports on same subject, time limit for final file assembly to be applied for each report separately.
- Time limit may be prescribed by law. If not, firm to establish time limits appropriate to nature of engagement – not more than 60 days in case of audit.

Engagement Performance - continued

- Confidentiality, safe custody, accessibility of engagement documentation
- Policies/ procedures to maintain confidentiality, safe custody, integrity, accessibility & retrievability of documentation.
- Confidentiality subject to:
 - Specific client authority
 - Legal/ regulatory requirement
 - Professional requirement
- Adequate controls needed to:
 - Enable the determination of when and by whom engagement documentation was created, changed or reviewed;
 - Protect the integrity of the information at all stages of the engagement
 - Prevent unauthorized changes to the engagement documentation; and
 - Allow access to the engagement documentation by the engagement team and other authorized parties

Engagement Performance - continued

- Policies/ procedures for retention of engagement documentation for period sufficient to meet needs of firm/ laws & regulations. Depends upon:
 - Nature of engagement
 - Firm's circumstances
 - Laws/ regulations
 - In the specific case of audit engagements, the retention period ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

Ownership of documentation

- Property of the firm unless specified by law.
- Firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided:
 - disclosure does not undermine the validity of the work performed, or
 - in the case of assurance engagements, the independence of the firm or its personnel

Resources – Human Resources

- Establish policies/ procedures to achieve reasonable assurance:
 - Sufficient personnel with capabilities, competence & commitment to ethical principles
- Issues to be addressed by HR policies:
 - *Recruitment*
 - *Performance evaluation*
 - *Capabilities*
 - *Competence*
 - *Career development*
 - *Promotion*
 - *Compensation*
 - *Estimation of personnel needs*

- Capabilities & Competence
 - Developed through
 - Professional education
 - Continuing professional development, training
 - Work experience
 - Coaching by more experienced staff
- Performance evaluation/ compensation/ promotion:
 - Create awareness among personnel as to firm's expectation w.r.t performance & ethical principles
 - Evaluation & counseling w.r.t performance, progress & career development
 - Help personnel understand performance quality & adherence to ethics are essential prerequisites for promotion

Information and Communication

- The firm shall establish the quality objectives that address obtaining, generating or using information regarding the system of quality management, and
- communicating information within the firm and to external parties on a timely basis to
- enable the design, implementation and operation of the system of quality management

»» Monitoring and remediation process

- Policies & procedures to achieve reasonable assurance that QC policies/ procedures are:
 - Relevant
 - Adequate
 - Operating effectively
 - Complied with in practice
- Involves on going consideration & evaluation of QC system, includes periodic inspection of completed assignments.

»» Monitoring and remediation process - continued

- Benefits - evaluation of:
 - Adherence to professional standards, regulatory requirements
 - QC appropriately designed & effectively implemented
 - QC has led to reports appropriate in the circumstances
- Responsibility of monitoring is on partners/ other persons with sufficient appropriate experience & authority in the firm.
- Ongoing evaluation of QC system includes:
Analysis of:
 - New professional/ legal developments & how reflected in firm's policies/ procedures
 - Compliance with independence requirements
 - Continuing Professional Development
 - Decisions on client acceptance/ continuance

»» Monitoring and remediation process - continued

- Determination of corrective action wrt QC system
- Communication of weaknesses to appropriate personnel in firm
- Follow up

Selection of completed engagements

- Cyclical
- One engagement of each partner in a cycle
- **Cycle not to exceed three years**
- Factors to consider:
 - Size of firm
 - Number & location of offices
 - Results of previous inspection
 - Degree of authority of personnel & office
 - Nature & complexity of practice & organisation
 - Risks associated with clients & specific engagements
- May be without prior notice
- Inspectors not to act as QC reviewer or part of engagement team
- **Independent external inspection not a substitute for internal monitoring program.**

»» Monitoring and remediation process - continued

- Communicate results of monitoring to engagement partners, CEO, managing partner & other appropriate individuals at least annually.
 - Also communicate recommendations for remedial action
- Communication to include:
 - A description of the monitoring procedures performed.
 - The conclusions drawn from the monitoring procedures.
 - Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

»» Specific Controls

Specific controls are those controls designed and implemented in each key process to achieve the objective highlighted in each key component of Quality Management.

»» Suggested approach:

- Focused and planned approach / project management (Focused Team)
- Documentation of Firm level policies and procedures in Audit Manual
- Consultation with experts (Within / Outside firm)
- Comprehensive Checklists for key functions and deliverables
- Discipline
- Real Time documentation of discussion and Key judgements
- Use of Technology to the extent possible
- Regular inspection and Review (By experts within or outside firm)
- Follow up action points on inspection findings

Key Challenges / Consideration:

Independence:

- Continuous updating of knowledge / key provisions of Independence requirements
- Discipline in declaration of investments and other relationships on timely basis

Client acceptance:

- Documentation of factors evaluated and key judgements while accepting the new client / engagement

Engagement Quality Review:

- Time available for EQR Review
- Timely EQR involvement
- Documentation of EQR Review

Engagement Performance:

- Timely Senior / Executive Involvement at planning stage
- Documentation of Work done and evidence obtained
- Real time / Online documentation and sign offs
- Timely Consultation and documentation

Human Resource: Considerations of Quality Matrix in evaluation



Thank you