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SOUTH AFRICAN INSTITUTE OF
PROFESSIONAL ACCOUNTANTS

■ YOUR WEALTH

The South African Institute of Professional Accountants isn't just about the title, it's about meaningful contributions to the accountancy profession as a whole, as well as your personal career aspirations.
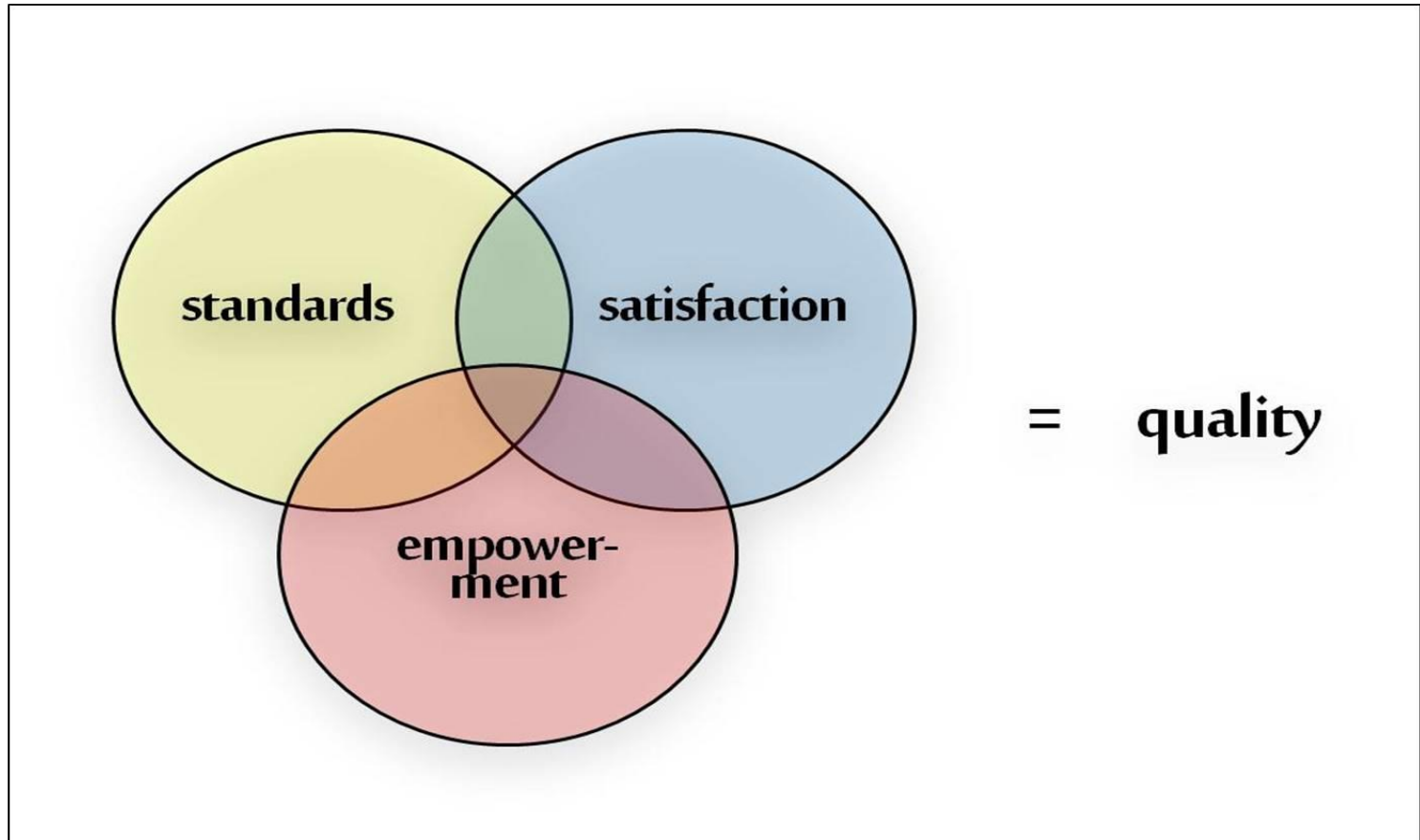
PRACTICE MANAGEMENT
Quality Control Manual (ISQC 1)

CPD – Practitioners
April 2018

Quality - Definition

standards satisfaction empower-ment = quality

Quality - Definition

Quality has various definitions and interpretations – the following are but a selected few:

- **Quality is a perception**
- **Quality is not a number**
- **Quality is about meeting and/or exceeding expectations**
- **Quality is conformance to standards**
- **Quality is rendering value for money services/goods**

"Quality is a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay"

Peter Drucker

Quality Assurance vs Quality Control

Quality Assurance:

- **Involves the continuous monitoring & evaluation throughout the process – process checklists or audits**

- **Is a preventative strategy implemented to minimize risks**

- **Professionals are able to determine whether the engagement deliverables are acceptable based on the procedures applied to create it – reviewing the work performed to draft the financial statements for compliance to IFRS for SMEs**

Quality Assurance vs Quality Control

Quality Control:

- **Involves the process of evaluating the end result / products – focus on the output**

- **Is a detection strategy implemented to identify risks or non-conformance**

- **Professionals are not able to determine whether the engagement deliverables are acceptable – checking financial statements for compliance to IFRS for SMEs**

Quality Management

- **Quality management is the system, procedures, methods and techniques that an organisation / practice implement to ensure that the requirements and standards place on it met.**

- **Quality Management system includes both quality assurance and quality control processes**

- **ISQC 1 – Quality Control Standard outline the key areas that should be included in a Quality Management System**

ISQC 1 - Overview

Quality Control Manual

Staff - Compliance with:

- **Professional Standards & Regulations**
- **Competent & Experienced for the engagement**

Engagement – Compliance with:

- **Engagement Standard & Procedures**
- **Ethical & Professional Conduct**

Reports – Appropriate for:

- **For the engagement**
- **Comply with Engagement Standard**

Quality Control Manual

Code of Conduct
1. Integrity
2. Objectivity
3. Due care
4. Confidentiality
5. Conduct

Code of Ethics
1. Public Interest
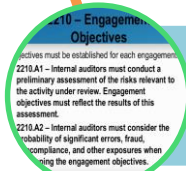2. Behaviour
3. Ethical dilemma
4. Reporting

Engagement:
1. Standards
2. Procedures
3. Reports

Quality Control Manual

Practitioner's quality control objective – quality of service delivery

Engagement objective – compliance with engagement standards

Financial statement objective – fair representation and reliability

Regulatory objective – compliance, conduct and reporting (NOCLAR)

Quality Control Manual

Documentation – policies & procedures to ensure compliance with internal process & professional standards

Components – comply with ISQC 1 where relevant and appropriate

Engagements – procedures and supporting documentation (working papers)

Communication – staff awareness and training as well as notification of changes

Leadership - Overview

Leadership – Structure

Principal:
Ultimate responsibility for quality

Quality Control Officer:
Operational responsibility for the quality control system

Engagement Partner:
Responsible for the execution of the engagement in terms of the quality control manual
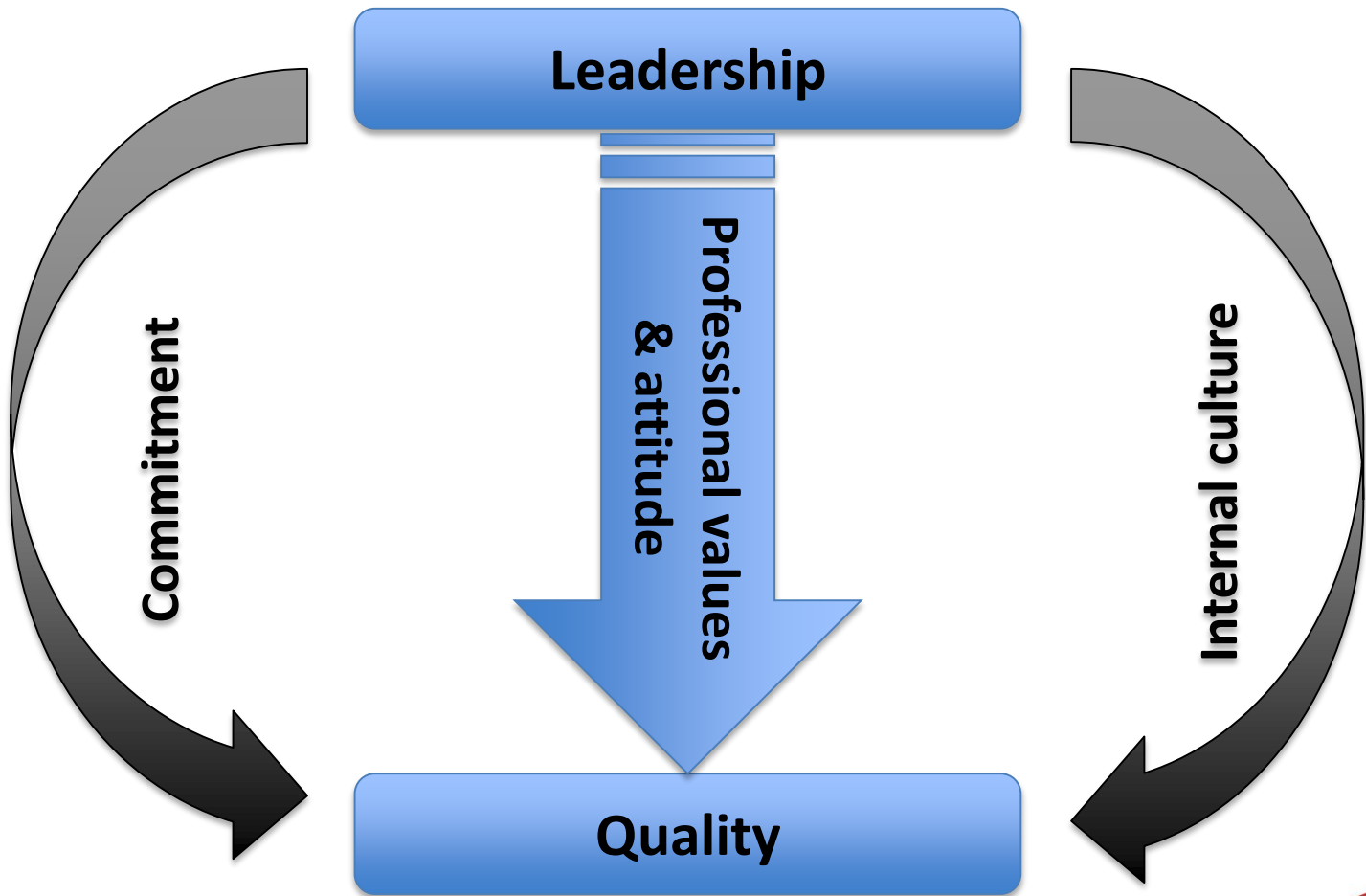
Leadership – Internal Culture

Commitment to quality – importance of quality throughout the organisation & all staff

Policies & procedures – performance evaluation and promotion linked to quality

Responsibility – commercial consideration should not override quality of work performed

Investment – allocation of resources for the development, documentation & support of quality management systems

Leadership - Responsibilities

- Responsibility of all staff at all levels
- Training is key
- Quality Control
- Allocation of resources
- Apply procedures consistently
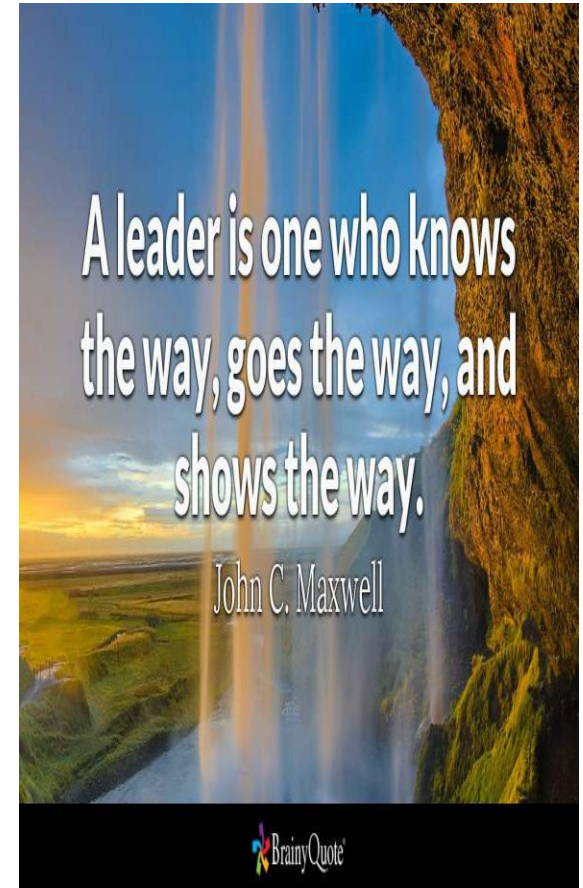- Quality is not compromised

Leadership – Quality Control Officer

Appointment criteria:

- **Experience in quality control**
- **Specialist knowledge in quality control**
- **Quality control for industries**
- **Business & professional ethics**
- **Authority within the practice**
- **Application of ISQC 1**

Risk consideration:

- **Involvement in engagement team**
- **Involvement in monitoring process**
- **Involvement in Quality Reviews**

A leader is one who knows the way, goes the way, and shows the way.

John C. Maxwell

BrainyQuote

Leadership – Quality Control Officer

Responsibilities:

- **Changes in professional standards**
- **Review of quality control systems**
- **Compliance to quality control systems**
- **Risk associated with engagements**
- **Improve quality control systems**

Leadership:

- **Communication & distribution of quality control processes**
- **Conducting training of staff**
- **Conducting induction of staff**
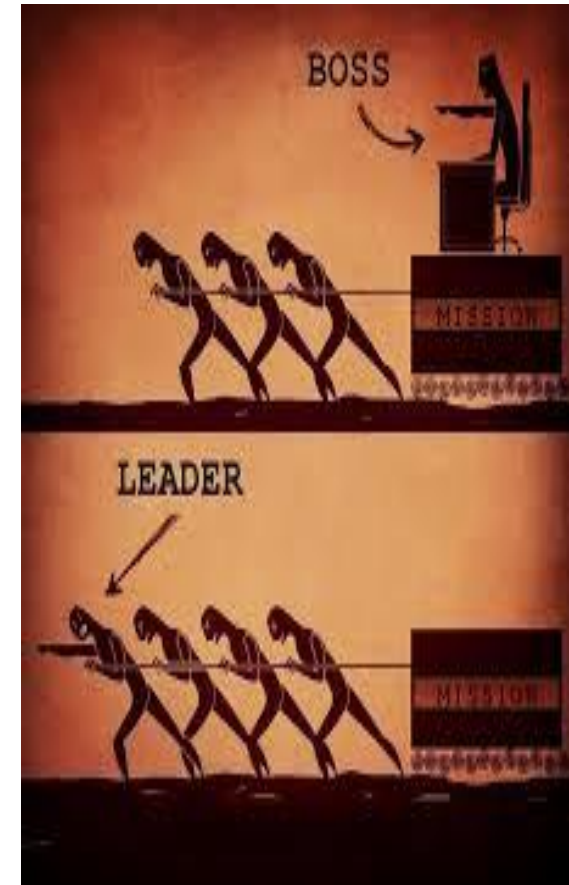
Leadership – Quality Control Officer

Ethics:

- **Staff training on Code of Ethics**
- **Maintain a register of threats to independence**
- **Maintain a register of threats to engagement standards**
- **Procedures to identify and report ethical dilemmas**
- **Maintain a register of clients' risks**

Engagement performance:

- **Compliance to professional standards**
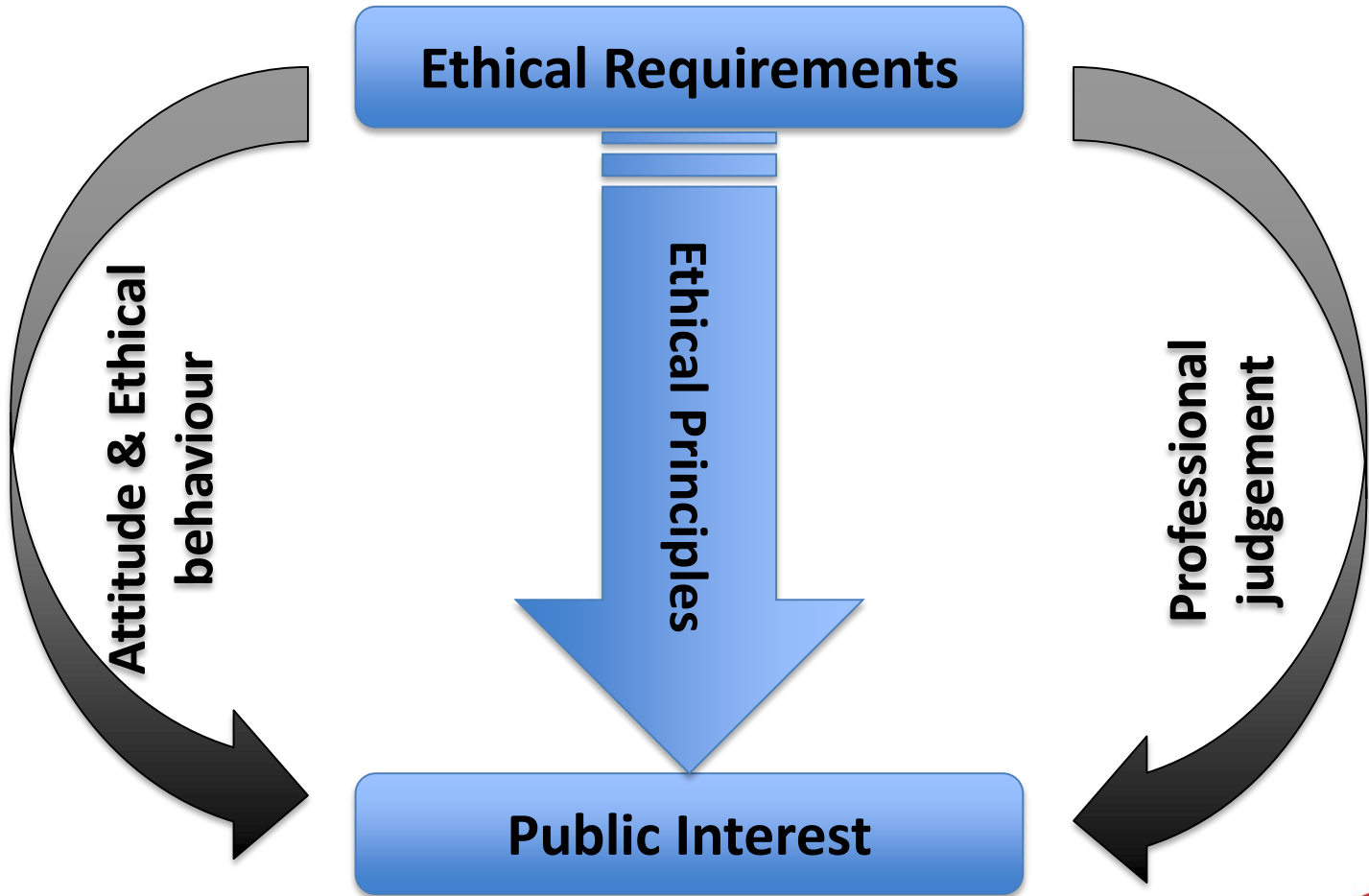- **Maintain performance review reports**

Planning Meeting

Cycle diagram: Quality Control Systems → Ethics & Professional Conduct → Independence & Conflict of Interest → Engagement Standards → Reporting

Relevant Ethical Requirements

Ethical Requirements

Ethical Principles

Attitude & Ethical behaviour

Professional judgement

Public Interest

Relevant Ethical Requirements

Relevant Ethical Requirements

- Compliance to IEASB
- Compliance to independence
- Actions for non-compliance
- Ethical Requirements
- Threats to ethics
- Investigation of ethical issues
- Reporting of ethical dilemmas

Acceptance & Continuance

Relationships between clients and professional accountants are often established over several years:

- **provide high-quality client service**

- **compromising situation - continued business association may need to be reconsidered**

Policies with respect to acceptance and continuance of client relationships be linked with independence considerations.

Rigorous client acceptance

Continuous monitoring procedures

Annual client continuance evaluation
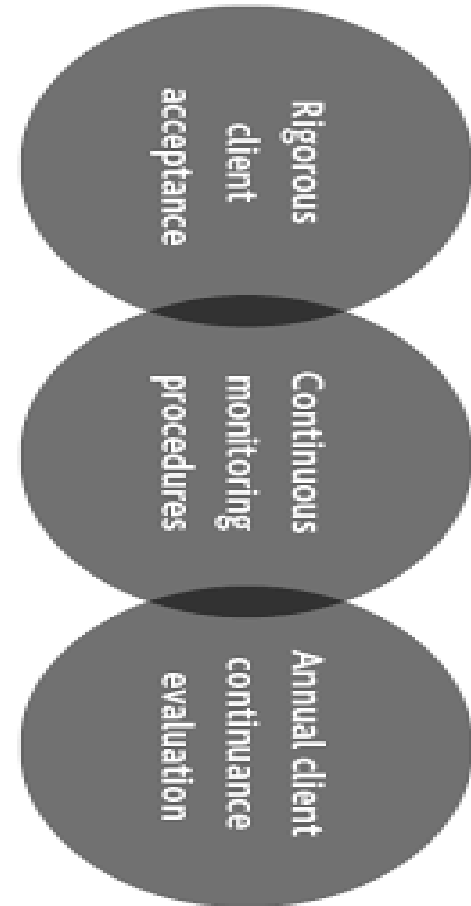
Acceptance & Continuance

Competence: staff assigned to the engagement are competent and have the relevant knowledge & experience

Resources: practice has the resources (staff, time and other) to execute the engagement

Ethics: ability to comply with the ethical and independence requirements

Risk: consider the risk of the client (integrity) and its fit with the practice's risk profile

Acceptance & Continuance

Continuance:
1. Prior findings
2. Changes
3. Payment
4. Risk/reputation
5. Staff turnover

New client:
1. Risk assessment
2. Risk profile fit
3. Engagement
4. Resources
5. Expectations

Engagement:
1. Nature & type
2. Risk
3. Competence
4. Use of reports
5. Distribution

Continuance of Engagement

Findings: assess the type & nature of findings in terms of risks and management's response to addressing it

Changes in business: assess the changes in terms of its risks on & competence requires for the engagement
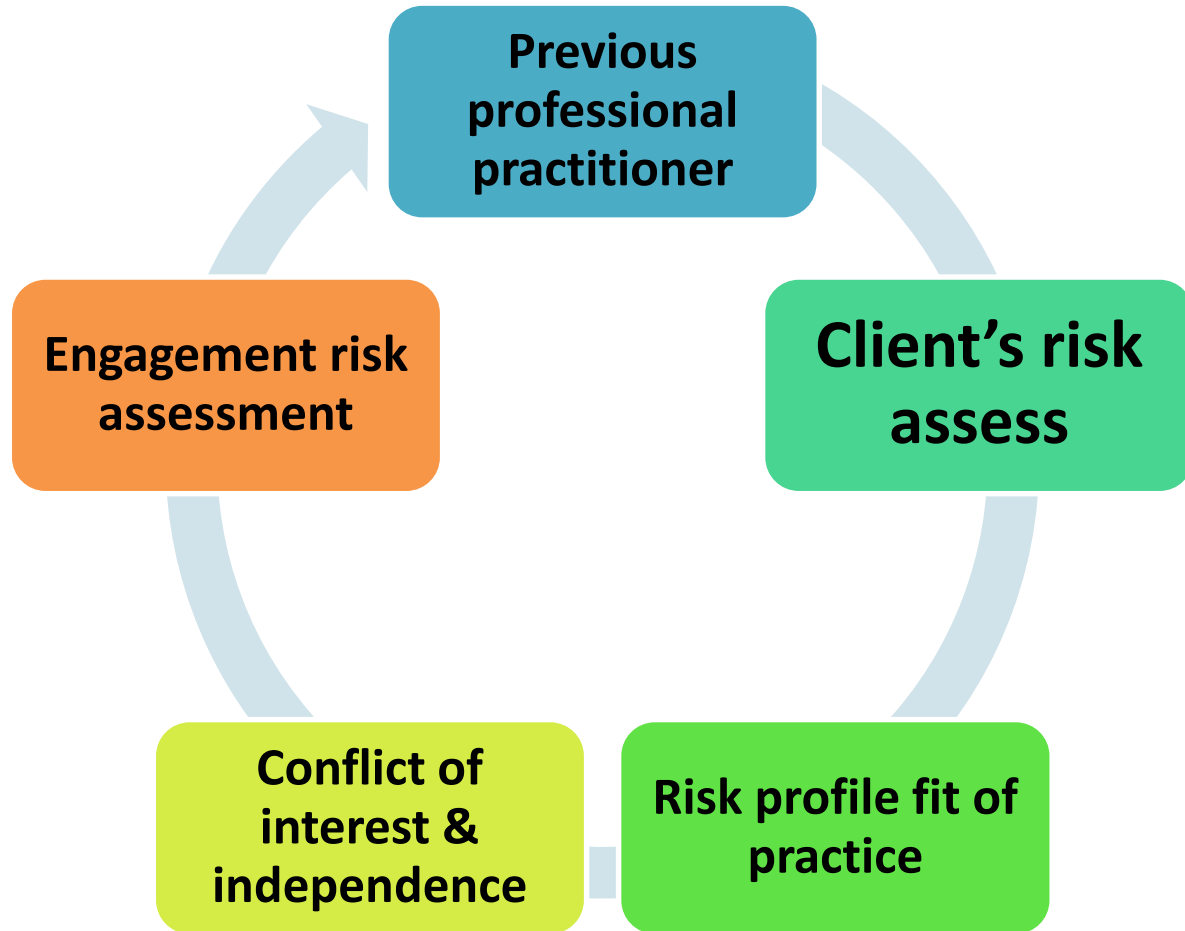
Financial status: assess the ability of the client to meet its financial obligations for the engagement

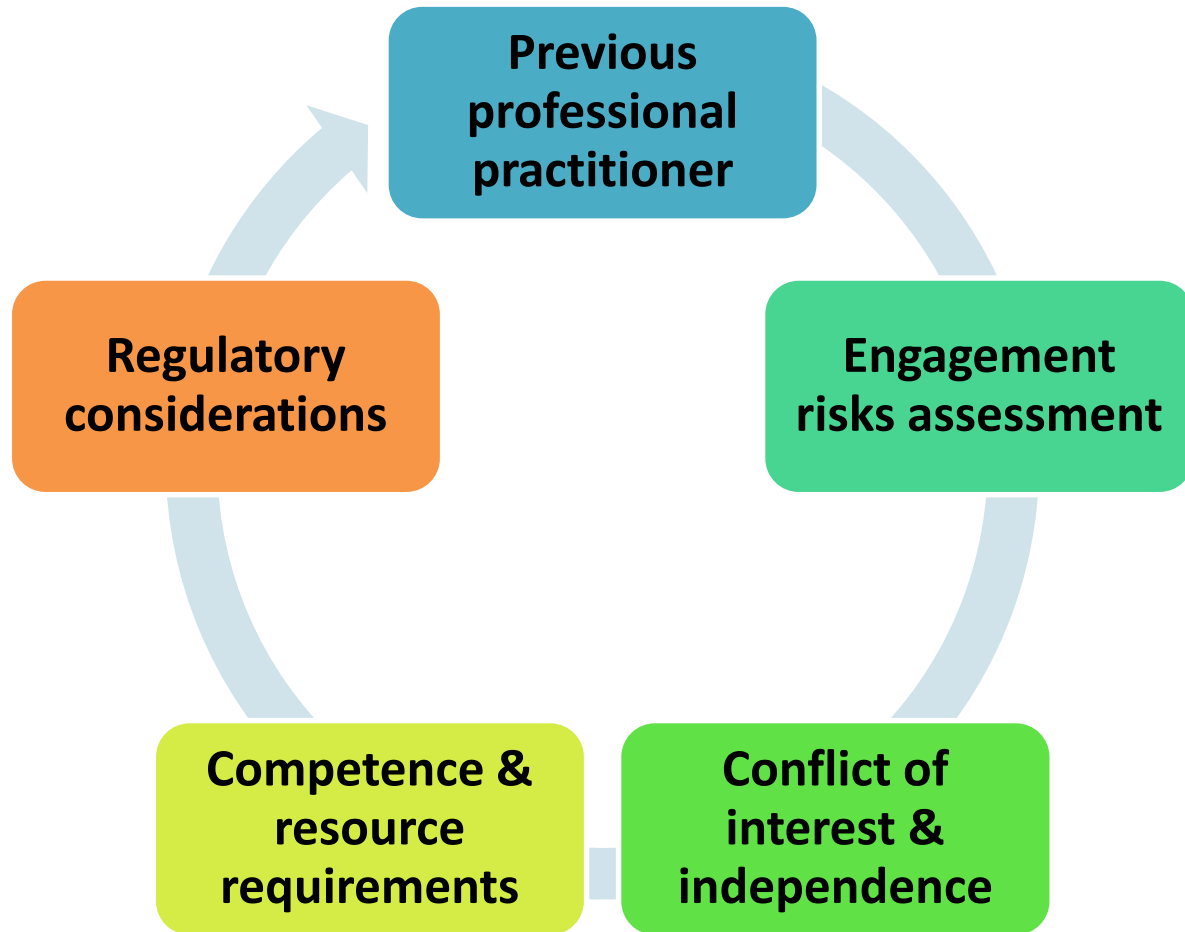**Conflict of interest: assess conflict of interest, independence & ethical considerations**

Acceptance of New Clients

Previous professional practitioner

Client's risk assess

Risk profile fit of practice

Conflict of interest & independence

Engagement risk assessment

Acceptance of New Engagements

- Previous professional practitioner
- Engagement risks assessment
- Conflict of interest & independence
- Competence & resource requirements
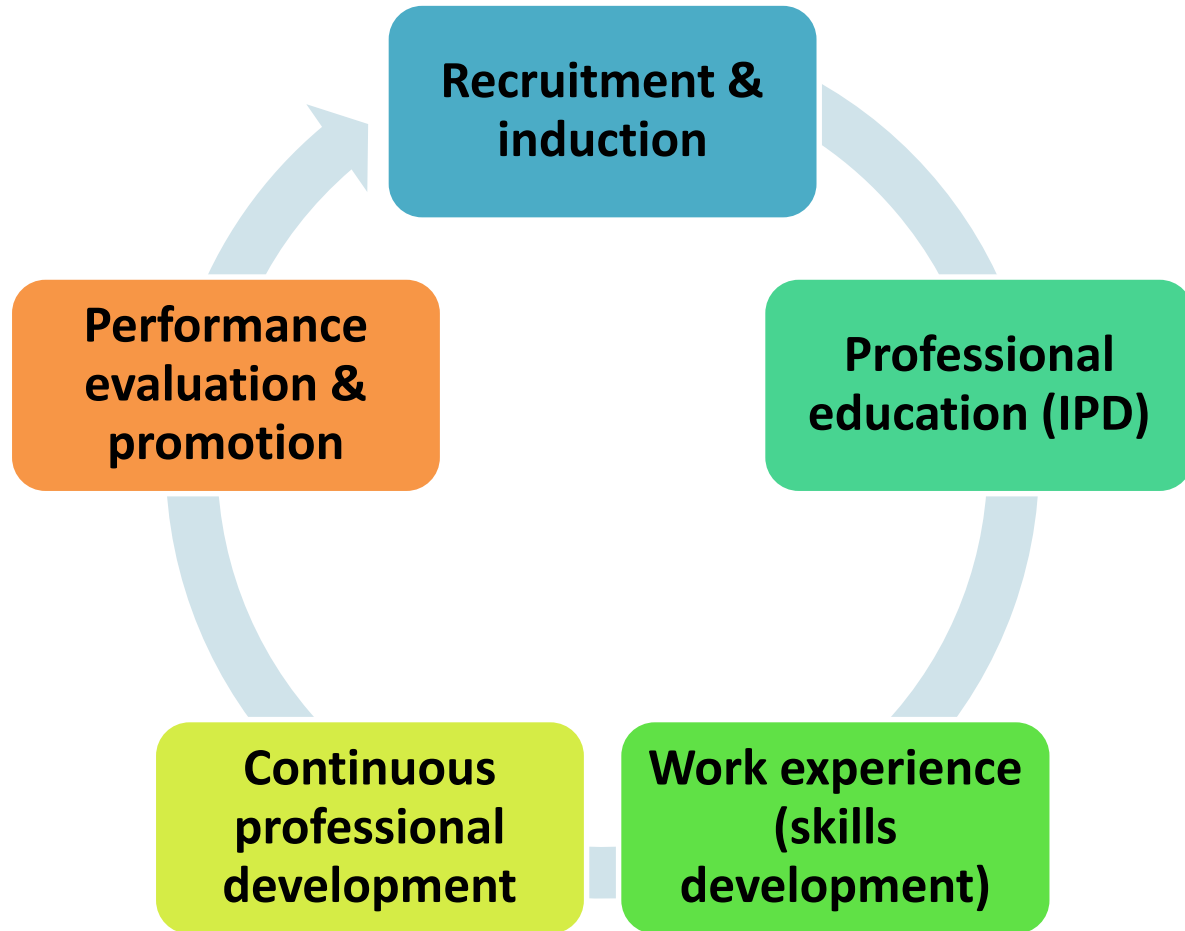- Regulatory considerations

Human Resources

The practice require sufficient employees with the capabilities, competence, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and regulatory and legal requirements, so as to enable the professional practitioner to issue reports that are appropriate in the circumstances.

Human Resources

Recruitment & induction

Professional education (IPD)

Work experience (skills development)

Continuous professional development

Performance evaluation & promotion

Engagement Performance

Policies and procedures are designed to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that reports issued are appropriate in the circumstances. Such policies and procedures shall include:

- **Promoting consistency in the quality of engagement performance;**
- **Supervision responsibilities; and**
- **Review responsibilities.**

Linking employee engagement to business performance

Happy Employees → Happy Customer → Low Churn → More Revenue

Employee Engagement | Customer Satisfaction | Customer Churn | Business Performance

Analytics.HR.com

Engagement Performance

- **Discuss findings & impact on reports**
- **Review supporting documentation**
- **Review financial statements & reports**
- **Review reports - appropriateness**
- **Compliance to quality control processes**

Monitoring Quality Control System

Establish a monitoring process designed to provide reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:
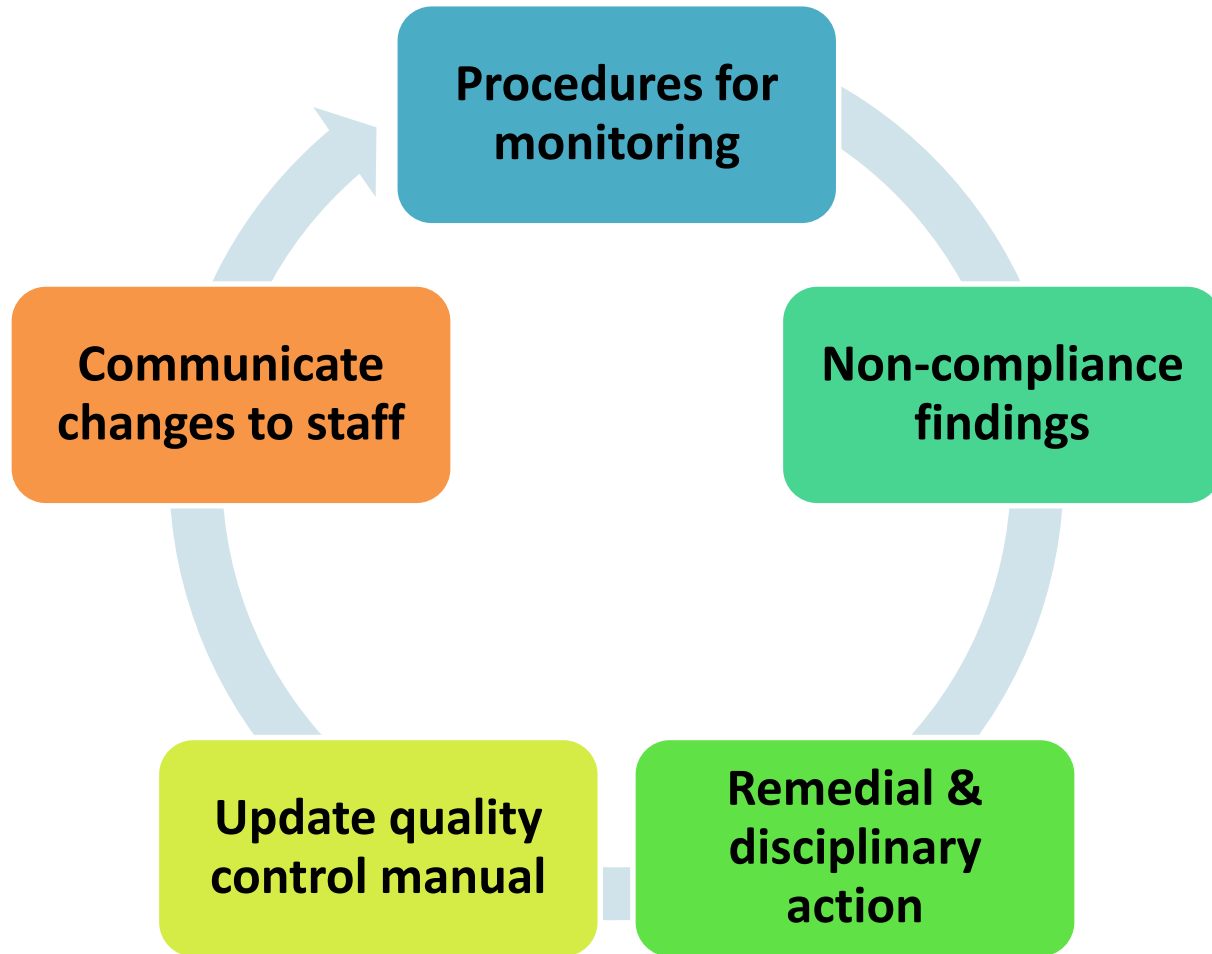
- Ongoing consideration and evaluation of the system of quality control including, on a cyclical basis, inspection of at least one completed engagement;

- Responsibility for the monitoring process to be assigned to a person with sufficient and appropriate experience and authority; and

- Person performing the quality control review is not involved in inspecting the engagements.

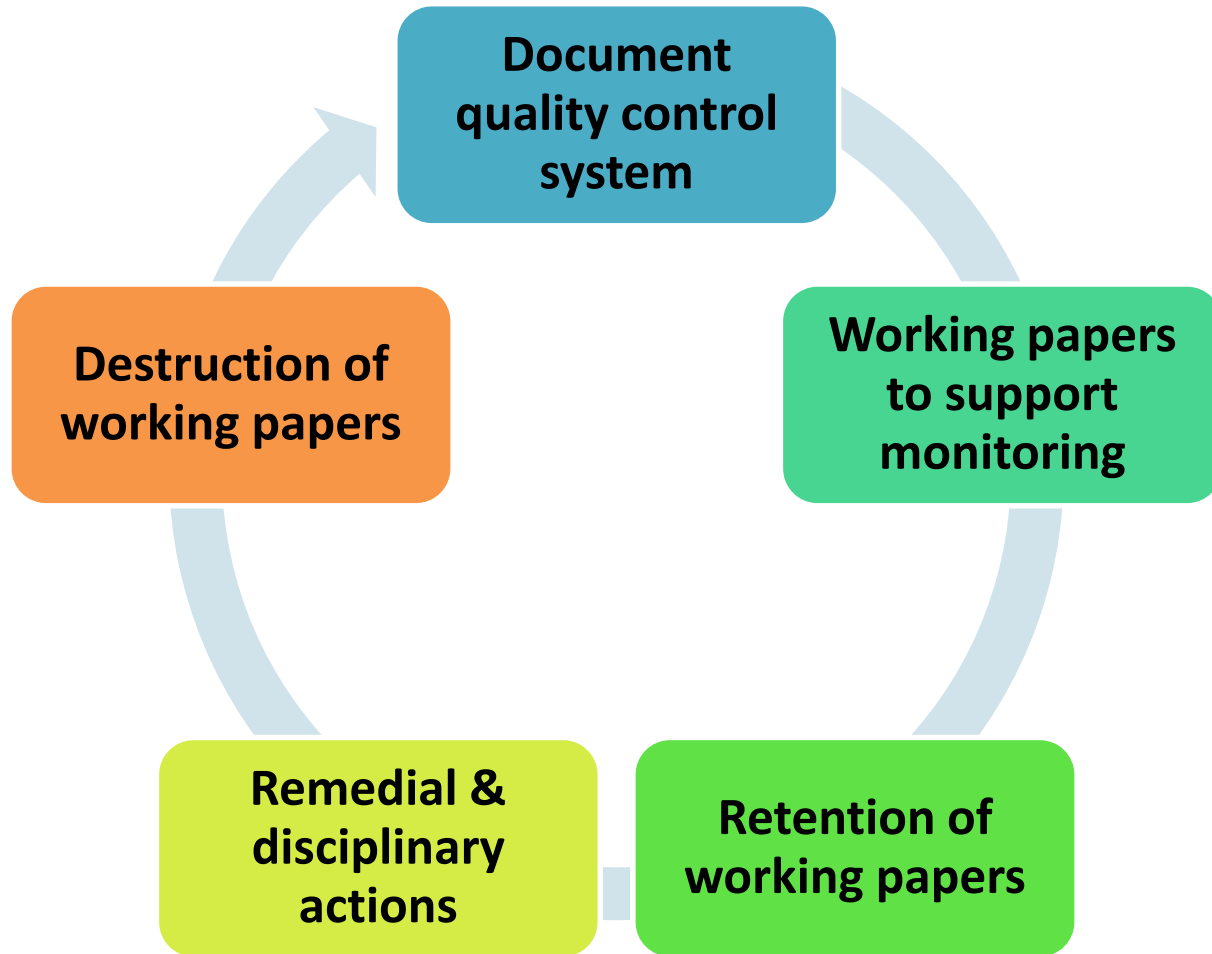# Monitoring Quality Control System

Procedures for monitoring

Non-compliance findings

Remedial & disciplinary action

Update quality control manual

Communicate changes to staff

PRACTICE MANAGEMENT - QUALITY
CONTROL MANUAL (ISQC 1)

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Documentation

A circular cycle diagram with the following stages:

- Document quality control system
- Working papers to support monitoring
- Retention of working papers
- Remedial & disciplinary actions
- Destruction of working papers