

SQC 1

SQC-1 : Quality Control for Firms that perform Audits & Reviews of Historical Financial Information and Other Assurance & Related Services Engagements

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Introduction

The purpose of the SQC is to:

- **Establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits.**
- **Reviews of historical financial information and for other assurance and related services engagements**

Requirements

The firm should establish a system of quality control designed:

- to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements,
- that reports issued by the firm or engagement partner are appropriate in the circumstances.

Elements of a System of Quality Control

- a) **Leadership responsibilities for quality within the firm.**
- b) **Ethical requirements.**
- c) **Acceptance and continuance of client relationships and specific engagements.**
- d) **Human resources.**
- e) **Engagement performance.**
- f) **Monitoring.**

Leadership responsibilities for quality within the firm.

- The firm should establish policies and procedures designed to promote an **internal culture** based on the recognition that **quality is essential in performing engagements.**
- Requires the CEO or managing partners to assume ultimate responsibility for firm's SQC.

Leadership responsibilities for quality within the firm.

Needs the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement to achieve quality.

Accordingly,

- Firm assigns its management responsibilities so that commercial considerations do not override quality.
- Firm's policies, performance evaluations, compensation and promotions are designed to demonstrate commitment to quality.
- Firm devotes sufficient resources for development, documentation and support of its SQC.

Ethical Requirements

The firm's policies should emphasize the fundamental ethical principles as per ICAI's code of ethics :

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

Independence

Requires firm to establish policies and procedures to enable it to ensure that its personnel maintain independence as per the Code.

Such policies and procedures should enable the firm to:

- Communicate its independence requirements to its personnel and others.
- Identify and evaluate circumstances and relationships that create a threat to independence and take appropriate action to mitigate the threat, reduce it to an acceptable level or withdraw from the engagement.

Acceptance and continuance of client relationships & engagements.

Requires firm to establish policies and procedures to enable it to ensure it will undertake client relationships and engagements only where:

- It has considered integrity of the client and does not have information that leads it to believe client lacks integrity.
- Is competent to perform the engagement and has the time and resources to do so.
- Can comply with ethical requirements

Human Resources

Requires firm to establish policies and procedures to enable it to ensure that it has sufficient personnel with:

- Capabilities
- Competence and
- Commitment to ethical principles.

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 regulatory and legal requirements, and
- That the firm or the engagement partner issues reports that are appropriate in the circumstances.

Monitoring

The firm should establish policies and procedures designed to provide it with reasonable assurance:

- that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.
- Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control.




We do not expect auditors to find a needle in a haystack but they must see the elephant in the room.

MCA Secretary



**CHANGE IS
HARD AT FIRST,
MESSY IN THE
MIDDLE AND
GORGEOUS AT
THE END**

ROBIN SHARMA





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