CA | THE INSTITUTE OF **CHARTERED** ACCOUNTANTS OF SRI LANKA

ENHANCE

THE PERFORMANCE
OF YOUR PROFESSIONAL PRACTICE

**AUDIT QUALITY
ASSURANCE PROGRAMME**

CONTENTS

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Introduction

A touch of refinement and quality can bring an instant boost to the ambience you are in, and enhance your performance.

The Audit Quality Assurance programme conducted by the Institute of Chartered Accountants of Sri Lanka with the aid of the World Bank is an effort to safeguard and uplift the public trust and confidence placed on the audit profession.

The aim of this programme, is to familiarize practicing members and firms with the SLSQC 1 policies and procedures; and provide them with the assistance, guidance and mentoring that would help them improve the quality of their audit work.

Background

A Report on the Standards and Codes on Accounting and Auditing (ROSC A&A) of the World Bank identified that CA Sri Lanka lacked an effective mechanism for independent review of the quality assurance arrangements of audit firms and recommended that the Institute should put in place a process to ensure compliance with established auditing standards.

An Audit Quality Assurance Board (QAB) was set up by CA Sri Lanka at the end of 2009. The QAB is chaired by a non-practicing member of the Institute and includes representatives of five regulatory agencies - the Securities & Exchange Commission of Sri Lanka (SEC), the Central Bank of Sri Lanka (CBSL), the Insurance Board of Sri Lanka (IBSL), the Sri Lanka Accounting & Auditing Standards Monitoring Board (SLAASMB), and the Auditor General - and Senior and experienced members of the Institute who are now independent of firms in public practice.

The QAB is responsible for oversight of the Audit Quality Assurance (AQA) programme, which includes developing policies and procedures on quality control, and monitoring compliance of such policies and operational matters. **The QAB assists the Council in strengthening the quality of professional practices and the work programmes of audit practitioners.**

AQA programme commenced in 2013 with assistance from the Institute of Chartered Accountants in England & Wales, under a World Bank funded project. **It will enable the Institute fulfil its obligations as a member of the International Federation of Accountants (IFAC).**

In a nutshell, AQA seeks to establish a system by which the quality of ALL audit practitioners are monitored vis-à-vis standards that they are required to conform with as members of CA Sri Lanka. AQA programme will assist practicing members to meet their professional obligations and help CA Sri Lanka protect its standing and integrity as a professional institute, and increase public confidence in financial reporting and auditing.

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AQA will be carried out in 2 stages.

Phase 1 of the programme envisages initial assessment visits to practicing firms volunteering to have their practices reviewed by one of three retired senior audit partners of international firms in Sri Lanka on a confidential basis. It will include a review to check compliance with Sri Lanka Standard on Quality Control 1 (SLSQC 1). The initiative, to begin with, will be voluntary, giving time for those practitioners who need to adjust to the standards established by CA Sri Lanka.

Subsequent to the review, a confidential report will be issued to the firm reviewed on the findings and policies and procedures that could be improved. The findings specific to a firm or any part of the report will not be conveyed to any other party. Each Reviewer will prepare a generic report (without reference to any speific firms) to the QAB on the general findings.The QAB will summarize the findings of the Reviewers and issue its report to the Council of CA Sri Lanka on further action required.

A detailed file (engagement) review is envisaged to be rolled out in the second quarter of 2015 as *Phase 2*. This programme will be developed on the experience gathered in carrying out Phase 1.

Phase 1 will be preceded by SLSQC 1 training sessions, workshops and discussions, to raise awareness among practitioners.

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AQA Work Carried Out To Date

- Conducted 11 SLSQC 1 workshops for practitioners

Created awareness among practitioners on the requirements under SLSQC 1, which all of them are mandated to follow. 11 SLSQC 1 implementation sessions, were carried out in July 2013 where all practicing members were invited and a total of 280+ audit practitioners participated in these sessions.

- Development of the Quality Assurance Framework *(includes procedures relating to the initial assessment visit process and full monitoring process)*

- A panel of Quality Assurance reviewers, independent of practicing firms, was appointed by the QAB and trained to carry out the firm-wide reviews

- Carried out pilot Quality Assurance reviews in preparation for Phase 1

This phase is confined to a review *(of an administrative nature)* of the firms to check on their compliance with SLSQC 1 by the establishment of policies and procedures to achieve this purpose. CA Sri Lanka has successfully covered over 40 firms i.e. all leading audit firms and Small and Medium Sized Practices (SMPs) up to the first quarter of 2014.

SLSQC 1 Coverage

Adoption of SLSQC 1 is a part of the country's adoption of Clarified ISAs and a move towards improving audit quality. It is based on the international standard, ISQC 1. It provides a framework for quality control over audit work and covers the seven elements of SLSQC 1 set out below.

SLSQC 1 is designed to be appropriate for all sizes of firms as it is scalable. While the procedures in a sole practitioner firm will look very different to those at large international firms, they should achieve exactly the same outcome.

The main aim of the standard is to enhance audit quality, risk management and audit efficiency.

The seven key areas in SLSQC 1

1. **Documentation** – document the quality control system and ensure it is fully communicated to all of the firm's staff
(Refer Annexure 1, Page 16)

2. **Leadership responsibilities** – ensure quality is driven from the top of the firm (Refer Annexure 1, Page 17)

3. **Ethical requirements** – act ethically (Refer Annexure 1, Page 18)

4. **Acceptance and continuance** – accept only those engagements where the firm is confident it can provide
in compliance with requirements (Refer Annexure 1, Page 19)

5. **Human resources** – recruit, develop and support capable and competent staff (Refer Annexure 1, Pages 20 & 22)

6. **Engagement performance** – deliver quality audits (Refer Annexure 1, Page 22 - 24)

7. **Monitoring** – monitor and seek continuous improvement of the firm's system of quality control
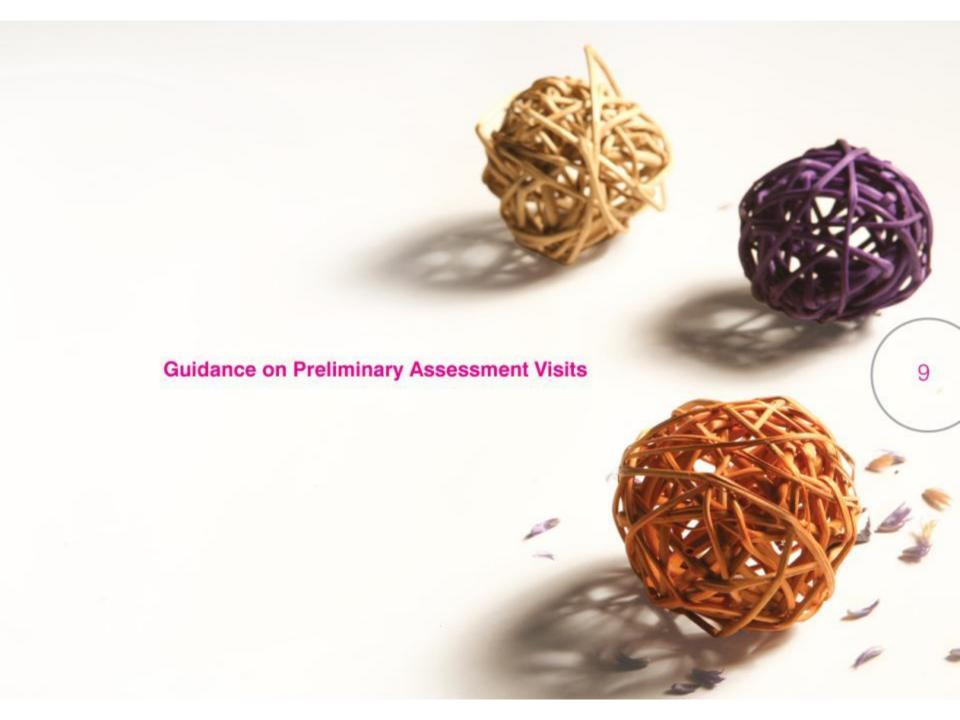(Refer Annexure 1, Pages 25 & 26)

Your approach to AQA

- Improve audit quality with the help and support from CA Sri Lanka

- Follow the policies and procedures laid down in SLSQC 1 *(SLSQC 1 Training Sessions will be carried out this year)*

- Be guided by the findings and recommendations the Reviewer provides after the preliminary assessment visit

- (If a SMP) Use the SME Audit Manual *(Workshops are to be carried out on the SME Audit Manual in 2014 / 2015 providing further guidance to SMPs to assist them on best practices, developments and application of Clarified Auditing Standards. This will help SMPs carry out their audits effectively.)*

- Use the technical support provided by CA Sri Lanka on any issues arising in implementing audit quality

Benefits of AQA for practitioners

- Enhance the integrity and transparency of Financial Statements and improve public perceptions of financial reporting and auditing, and their benefits

- Support capital market development

- Enhance the credibility of the profession and raise the profile of CA Sri Lanka and its members

- Help protect practitioners from claims for professional negligence

Guidance on Preliminary Assessment Visits

What is an initial assessment visit?

Initial Assessment Visits focus on the procedures, processes and controls established by firms to ensure that audits comply with professional standards and that the firm meets the requirements of SLSQC 1. This discussion will assess and comment on the quality of audit work performed by a firm. This visit will not involve a detailed assessment of these policies and procedures but is aimed at providing assistance to you in complying with the requirements of SLSQC 1, effective from 1 January 2013.

Purpose of the visit and duration

The purpose of this visit, which should last for no more than half a day, is to make a preliminary assessment of the firm's approach to ensuring audit quality and the quality control policies and procedures you have put in place in line with SLSQC 1.

Outcome of the visit

Subsequent to the visit the Reviewer will draft a summary of findings and recommendations and send this to you for your consideration and action. This will

- identify clearly any deficiency in compliance with SLSQC 1;

- help follow-up; and

- provide constructive and practical advice.

Who is going to review

The following panel of independent local QA Reviewers have been appointed by CA Sri Lanka to carry out the initial firm level reviews. This panel is technically strong with expert skills to carry out these reviews.

Mr. Tissa Bandaranayake FCA

Mr. Nirmal Fernando FCA

Mr. Deva Rodrigo FCA

How to prepare yourself before a visit

Documents and records checklist

It would be helpful if you could make the following documents and records available during the initial assessment meeting. Tick the relevant cage as *appropriate* Y / N / NA as per the documents available for your reference.

		Y	N	N/A
1	Organisation chart showing key personnel and reporting lines. Connected practices to be included where relevant [This may not be relevant for smaller practices]			
2	List of the type of audit clients by audit partner/principal, industries and size (Refer Page 13)			
3	Engagement letter proforma			
4	Client acceptance/continuance checklists or other standard documentation used to record such considerations			
5	Proforma checklist or other documentation used to record engagement quality control review (EQCR) for listed company and other public interest audits			
6	Copy of proforma independence declaration and monitoring			
7	Proforma CPD record			
8	Proforma documentation for staff, and if applicable, partner appraisals			
9	Copies of any specimen audit programmes and checklists used by the firms			

Agenda

Refer to the areas below so that you will be ready to provide answers to questions related to same.

Initial assessment meeting

Introduction

Introduction to the reviewer(s) and purpose and scope of the visit

The firm (Refer Annexure 2, Page 27)

Firm structure
Lines of Business (Audit, Tax, Secretarial, Book Keeping and Accounting, Business Advisory etc.)
Management and reporting lines
Key partner roles/responsibilities
Other offices and how controlled (if applicable)
Audit partners and staff – background, qualifications and level of experience
Related firms – ownership and control
Accuracy of information on the audit register/annual return

Audit clients by type (Refer Annexure 2, Page 28)

Overview of audit client base
Industries
Range of fees (optional) : (>Rs. 1,000,000; 500,000 - 1,000,000; 100,000 - 500,000 and <100,000)
Key/largest clients
Listed clients
Regulated/specialist and other public interest audits
Group audits/reliance on other auditors
Significant recent gains and losses

Risk management (Refer Annexure 2, Page 29)

Acceptance /continuance decisions
Compliance with CA Sri Lanka Code of Ethics
Complaints
Professional indemnity insurance – cover/claims
Other potential risks

**People - recruitment, training and appraisal
(Refer Annexure 2, Page 30)**

Recruitment procedure (including induction)
Appraisal procedures – partners and staff
Training – key topics, specialist areas
Monitoring of CPD

Audit engagement procedures (Refer Annexure 2, Page 31)

Audit manual/system/ standard documentation
Approach to updating eg for [clarified] ISAs
Tailoring for specialist/regulated clients
Technical support/consultation arrangements
EQCR/independent partner review procedures
Procedures for checking accounts disclosures
Confidentiality and file retention policies

Monitoring (Refer Annexure 2, Page 31)

Scope and coverage
Findings of latest monitoring reviews
Feedback, follow up and action plan
Programmes/checklists used

Next steps

Reporting of findings and recommendations
Firm's responses – expectations/timetable (optional)

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Annexures

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Annexure 1

Documentation

Document the operation of the quality control system so that the firm complies with the relevant SLSQC 1 requirements (paragraphs 17, 57–59).

For a sole practitioner

Documentation of the quality control system

Policy: The firm's system of quality control is appropriately documented to demonstrate compliance with SLSQC 1 and [name of sole practitioner] takes responsibility for the implementation of such policies and procedures.

Procedures:
Either: The firm purchases and tailors a third-party quality control handbook/manual, issues this to staff and keeps it up to date.

Or: The firm maintains an SLSQC 1 file which includes policies to address the elements of a quality control system as set out in SLSQC 1 and how the firm will deliver them. This is kept up to date and the contents are clearly communicated to staff.

Leadership responsibilities

Lead from the top giving consistent messages on the importance of quality control (paragraphs 16(a), 18–19) SLSQC 1.

For a sole practitioner

Responsibility for the firm's audit work

Policy: [Name of sole practitioner] has the final responsibility for audit quality and seeks to instill in all partners and staff the importance of audit quality in all his/her actions connected with the firm's audit work.

Procedure: All changes to our audit procedures must be authorised by [name of sole practitioner] and any issues relating to audit quality should be drawn to [name of sole practitioner]'s attention immediately.

Commitment to ensuring quality control

Policy: [Name of sole practitioner] allocates sufficient time and resources to the development and documentation of the firm's quality control policies and procedures.

Procedures:
[Name of sole practitioner] takes responsibility for ensuring this happens;

[Name of sole practitioner] liaises with [name of external provider which provides a quality control manual] and establishes reasonable timetables for the production and issue of relevant policies and procedures, tailored to the circumstances of the firm; and

[Name of sole practitioner] liaises with [name of external provider] in order to provide appropriate training and reference material to staff.

Ethical requirements

Act ethically in accordance with the relevant Standards and pronouncements
(paragraphs 16(b), 20–25).

For a sole practitioner

Compliance with ethical standards when engagements are accepted and continued

Policy: The firm only accepts or continues with audit engagements if they do not contravene the principles established by the *CA Sri Lanka Code of Ethics and legal and professional requirements.*

Procedures: For each engagement accepted or continued, [name of sole practitioner] evaluates the impact of the relevant provisions in the IFAC Code [and/or national code or ethical standards/requirements] and other professional requirements on the engagements and takes such actions as required by those requirements. This is documented as part of the client acceptance paperwork and kept on the file to demonstrate that the issues have been appropriately considered.

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Acceptance and continuance

Accept only those engagements where the firm is confident it can provide a service in compliance with requirements with particular emphasis on integrity and competencies (paragraphs 16(c), 26–28).

For a sole practitioner

Acceptance and continuance – new and existing clients

Policy: The firm only accepts or continues an assignment if the firm has concluded that the client does not lack integrity, that the firm is competent and has the resources to perform the services required, and that the firm can comply with the requirements of the IFAC Code of Ethics for Professional Accountants [and/or national Code or standards or legal requirements].

Procedure: [Name of sole practitioner] undertakes appropriate investigations/assessments and completes the firm's client acceptance/continuance documentation before the acceptance/continuance decision and also completes the relevant sections of the firm's standard audit procedures during the course of the planning stage of the engagement.

There will be other procedures required on assigning a competent team and ensuring that the firm and the team have met independence and other ethical requirements.

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Human resources

Recruit, develop and support capable and competent staff giving due attention to the firm's human resources policies and procedures (paragraphs 16(d), 29–31).

For a sole practitioner

Requirements relating to recruitment

Policy: The firm's recruitment program is designed to provide the firm with appropriately qualified personnel possessing the right mix of aptitudes, attitudes, skills and experience and the required soft skills, taking into account current client servicing commitments and anticipated future needs.

Selected procedures under the policy:

Advertising for new recruits in relevant local and professional publications.

Recruitment support is provided by [name of external source], which is a reputable job agency for accountancy firms.

Standardised prospective employee information forms.

Transparent interview and call back processes.

The obtaining of references.

Viewing and following up on evidence of professional and educational qualifications.

Periodically monitoring the effectiveness of the firm's recruitment processes.

Requirements of persons undertaking audit work

Policy: The firm will only employ staff or commission external persons to work on audits who have integrity and the relevant competencies.

One procedure under the policy: The firm conducts an annual assessment of all people employed or used on audit (including specialists) by the completion of questionnaires. We consider training needs for [name of sole practitioner] and staff as part of the performance review and appraisal process (including assessment of CPD) and decide on appropriate training programme based on this.There will be other human resources procedures which enable the policy to be delivered eg: on recruitment and how the firm decides that those assigned to the work will be appropriate.

Engagement performance

Deliver quality audits that comply with law, regulations and standards, including consulting when needed and meeting requirements for engagement quality control review (paragraphs 16(e), 32–47).
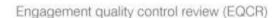
For a sole practitioner

Consultation on audit engagements

Policy: [Name of sole practitioner] and any staff are required to consult as appropriate on matters arising from the performance of the audit engagement.

Procedure: The first point of consultation will be a senior person within the firm with relevant knowledge/expertise, where available. Where not available, [name of sole practitioner] considers consulting with [name of external organisation]. All consultation relevant to the final audit opinion is documented and kept on file.

Engagement quality control review (EQCR)

Policy: The firm sets criteria for the conduct of EQCRs, those criteria being based on audit risk, public interest and specialised or regulatory nature of the audit work performed, and size of fee.

Procedure: Before an audit is commenced, an assessment is made against the EQCR criteria and the results of this assessment recorded. Should an engagement meet those criteria, an EQCR reviewer with sufficient expertise and experience (who might need to be external) will be appointed [if applicable, name the external source that the firm has arranged to be available to provide the likely reviewer]. The firm will of course have to set the criteria for EQCRs.

Documentation – timely final assembly and retention of audit engagement files

Policy: Completion and retention of audit engagement documentation should comply with the requirements of paragraphs 46 and 47 of SLSQC 1.

Procedure: All audit files are compiled in compliance with our audit system. They are assembled as near to the date of the audit report as practicable or as required, but in any event within 60 days of that date. The date of final assembly will be shown clearly on the file once assembly has been completed. They are retained for a period of five years from the date of the audit report.

Monitoring

Monitor and seek continuous improvement of the firm's system of quality control and carry out a periodic objective inspection of a selection of completed audit engagements (paragraphs 16(f), 48–56).

For a sole practitioner

Quality control review

Policy: [Name of sole practitioner] is committed to providing and maintaining a high standard of audit work. One part of achieving this is carrying out regular reviews of the system of quality control including annual external inspection of a selection of completed engagements.

Procedures: [Name of sole practitioner] reviews the firm's compliance with the [national requirements for regulated audit firms] on an annual basis.

Annual cold file reviews will be conducted by [name of external organisation] in accordance with the engagement letter agreed on [insert date].

[Name of sole practitioner] takes appropriate action based on the results of the reviews and important matters arising are communicated to all people deployed on audits on a timely basis.

Complaints

Policy: [Name of sole practitioner] is committed to providing a high-quality service to clients, and takes all complaints and allegations against the firm very seriously. [Name of sole practitioner] will deal on a timely basis with all complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements.

Procedure: All complaints of whatever nature are reported to [name of sole practitioner] who takes action as appropriate. This might include the need for further advice, training, disciplinary action or internal quality control systems changes.

Annexure 2

The Firm

- Introduction to your firm
- Lines of Business
- Firm's structure, how do you manage your organization?
- Do you have other offices? If so, where?
- How many partners are there? Do they have specific responsibilities?
- How many partners work on audit?
- How many staff/audit staff do you have?
- How many managers/supervisors/trainees?
- Do you have any related companies/businesses?
- What do other businesses do?

Audit Clients by type

- How many audit clients do you have?
- How many are listed/SBEs?
- What industry sectors are your audit clients in?
- How many large audit clients do you have?
- What are your most specialist audit clients?
- Do you act as group auditor for any of your clients?
- Have there been any significant changes in your audit clients recently? Gains or losses?

Risk Management

- How do you decide whether to take on or continue acting for an audit client?
- Do you have a form to evaluate and decide on client acceptance and continuance?
- Do you communicate with the previous auditor?
- How do you make sure all partners and staff are independent from your audit clients?
- Do you have a process to ensure that all staff who join your firm are independent, and is the process repeated for
- All current staff at least once per year?
- Do you have any ethical threats from personal or business relationships, or from non-audit services?
- Do you have a procedure to deal with complaints?
- Do staff know what they should do if a client complains about your firm?
- Do you have professional indemnity insurance (not mandatory)?
- Have you identified any other risks in your audit clients? Does anything worry you about audits?

People – recruitment, training and appraisal

- How do you recruit staff?
- Do you only recruit trainees or qualified staff as well?
- Do you complete performance appraisals of staff (and partners)? How often?
- How do you make sure you and your staff receive the right audit training?
- Do you monitor completion of training – can any staff or partners miss important courses due to client Pressures/Meetings?

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Audit Engagement Procedures

- Do you use an audit manual or audit programmes?
- Who produces the manual? How do you keep it up to date?
- Will it need to be updated for the revised SLAuS in January 2014, who will do this?
- Do your audit procedures include programmes for any specialized audits (banking, plantations etc)?
- Who provides technical support and consultation for audit teams when they have questions during an audit?
- Do you have an independent partner review (EQCR) of listed company audits – and may be other SBEs?
- How do you check statutory accounts disclosures – both SLFRS and SLFRS for SMEs?
- How do you keep your audit working papers confidential?
- How long do you keep your audit working papers for?

Monitoring

- Do you have any audit monitoring procedures as required under SLSQC 1?
- Do you complete regular reviews of completed audit engagements (cold file reviews)?
- How many cold file reviews do you complete each year?
- How do you select audit files to review?
- Do the reviews cover all of the partners involved in audit work?
- Do you also review your audit quality control procedures – for instance whether staff have completed audit acceptance documentation for new clients, whether everyone has signed off their independence declarations?
- Do you communicate your findings to all partners and staff? How?