

# HKSQC 1 and HKSA 220

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**Nelson Lam 林智遠**  
MBA MSc BBA ACA ACS CFA CPA(Aust)  
CPA(US) FCCA FCPA(Practising) MSCA

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## New Terms, New Approach .....

- System of quality control
- Elements of a system of quality control
- Leadership responsibility
- Written confirmation of compliance
- Integrity of the client
- CPD and coaching
- Consultation on difficult or contentious matters
- Differences of opinions
- Engagement quality control review (EQCR)
- Engagement documentation (60 day rule)
- Retention of engagement documentation
- Monitoring
- Quality assurance review (QAR)
- Complaints and allegations



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# Today's Agenda



Simple but  
Comprehensive

Critical and  
Contentious  
Issues

Templates and  
Examples

Overview

HKSQC 1 (Quality Control for a Firm)

HKSA 220 (Quality Control for a Job)

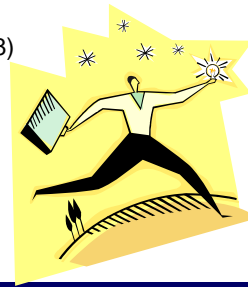
# Today's Agenda



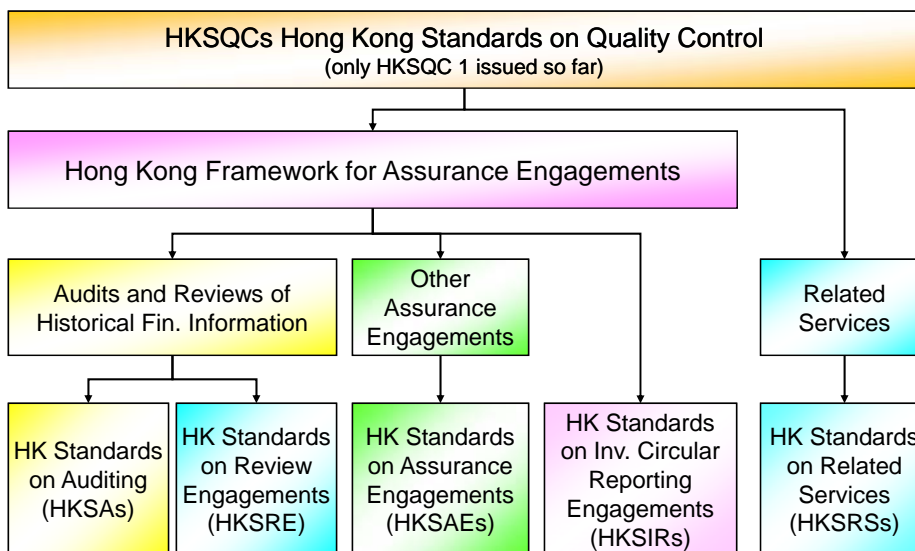
Overview

# Overview

- Auditing standards have been re-structured since 2004
  - Become part of the standards under standards on quality control, auditing, assurance and related services
  - Standards on quality control apply on a firm-wide basis
  - HKSQC 1 was issued in 2004 and become effective as of 15 June 2005
  - HKSA and other standards aligned with ISAs and other international standards
  - All SASs are being replaced by HKSAs
  - Only one SAS (SAS 510) remains in HK (up to Jan 2008)
- IAASB is in the process to improve the clarity of its ISAs .....



# Overview



# Today's Agenda



HKSQC 1 (Quality Control for a Firm)

# HKSQC 1 – Introduction

HKSQCs Hong Kong Standards on Quality Control  
(only HKSQC 1 issued so far)

HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagement*

- to establish basic principles and essential procedures and to provide guidance
  - regarding a firm's responsibilities for its system of quality control
    - for audits and reviews of historical financial information, and
    - for other assurance and related services engagements.

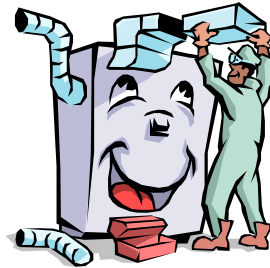


# HKSQC 1 – Introduction

What is Quality Control?

HKSQC 1 requires:

- 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, and
  - that reports issued by the firm or engagement partners are appropriate in the circumstances. (HKSQC 1.3)



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# HKSQC 1 – Introduction

What is Quality Control?

HKSQC 1 requires:

- The firm should establish a system of quality control designed to provide it with reasonable assurance

- High quality work reduce the risk of engagement failure and the CPA firm being sued for negligence.
- High quality of work will minimize the occasions when review of work reveals weaknesses in the audit and assurance approach, thus resulting in additional time spent by professional staff (this increases the cost of an engagement).
- High quality work will increase engagement efficiency, thus reducing costs.
- High quality work will also ensure good records of work so that they can be produced as evidence in a court of law if required.
- Finally, high quality work will give confidence to the client of the standard of service provided (higher client satisfaction).

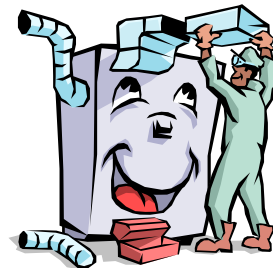
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# HKSQC 1 – Introduction

HKSQC 1 requires:

- A system of quality control consists of
  - policies designed to achieve the objectives set out in HKSQC 1.3 and
  - the procedures necessary to implement and monitor compliance with those policies



# HKSQC 1 – Introduction

HKSQC 1 requires:

- The firm's system of quality control should include policies and procedures addressing each of the following elements:

1. Leadership Responsibility
2. Ethical Requirements
3. Acceptance and Continuance
4. Human Resources
5. Engagement Performance
6. Monitoring

- Quality Manual
- Promote internal culture
- CEO or Managing partner(s) assume ultimate responsibility
- Integrity of the client
- Competent to perform the job
- Comply with ethical requirement
- Sufficient and competent personnel committed to ethics
- Each job with appropriate staff
- **Significant new requirements**

# HKSQC 1 – Introduction

HKSQC 1 requires:

- The firm's system of quality control should include policies and procedures addressing each of the following elements:

1. Leadership Responsibility

2. Ethical Requirements

3. Acceptance and Continuance

4. Human Resources

5. Engagement Performance

6. Monitoring



- The quality control policies and procedures should be documented and communicated to the firm's personnel.

# HKSQC 1 – Leadership

1. Leadership Responsibility

- The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements.
- Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent),
  - to assume ultimate responsibility for the firm's system of quality control. (HKSQC 1.9)



## HKSQC 1 – Leadership

- The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management emphasizing the firm's quality control policies and procedures, and the requirement to:
  - a) Perform work that complies with professional standards and regulatory and legal requirements; and
  - b) Issue reports that are appropriate in the circumstances.
- Of particular importance is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs.



## HKSQC 1 – Leadership

- Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners should have
  - sufficient and appropriate experience and ability, and
  - the necessary authority,  
to assume that responsibility. (HKSQC 1.12)
- Sufficient and appropriate experience and ability
  - enables the responsible person or persons to identify and understand quality control issues and to develop appropriate policies and procedures.
- Necessary authority
  - enables the person or persons to implement those policies and procedures.





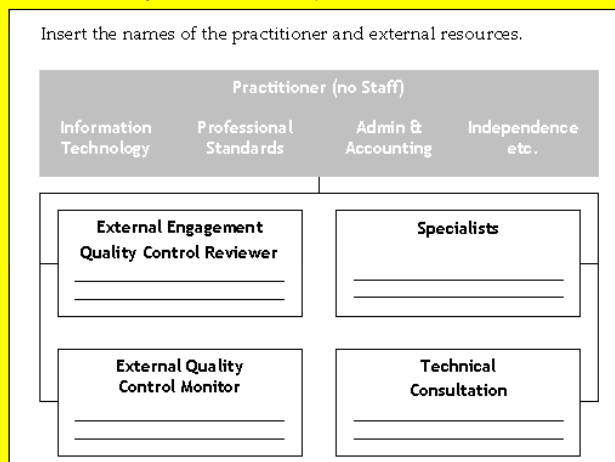
# HKSQC 1 – Leadership

- Firm organisation chart – Partnership
- Firm organisation chart – Sole practitioner with staff  
(A Guide to Quality Control – Part C)



# HKSQC 1 – Leadership

- Firm organisation chart – Sole practitioner without staff  
(A Guide to Quality Control – Part C)



# HKSQC 1 – Ethical Requirements



## 2. Ethical Requirements

# HKSQC 1 – 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. (HKSQC 1.14)

## 2. Ethical Requirements

- In addition to the Code of Ethics for Professional Accountants, any Independence for assurance engagements is so significant that it is addressed separately in HKSQC 1.18 to 1.27.
- These paragraphs need to be read in conjunction with the Code.

## HKSQC 1 – Ethical Requirements

- 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 network firm personnel), maintain independence where required by the Code.
- Such policies and procedures should enable the firm to:
  - a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and
  - b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action
    - To eliminate those threats or reduce them to an acceptable level by applying safeguards, or,
    - if considered appropriate, to withdraw from the engagement. (HKSQC 1.18)



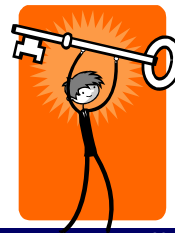
## HKSQC 1 – Ethical Requirements

- Such policies and procedures should require:
  - a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
  - b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and
  - c) The accumulation and communication of relevant information to appropriate personnel so that:
    - i) The firm and its personnel can readily determine whether they satisfy independence requirements;
    - ii) The firm can maintain and update its records relating to independence; and
    - iii) The firm can take appropriate action regarding identified threats to independence. (HKSQC 1.19)



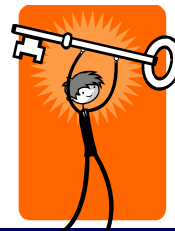
## HKSQC 1 – Ethical Requirements

- The firm should establish policies and procedures designed
  - to provide it with reasonable assurance that it is notified of breaches of independence requirements, and
  - to enable it to take appropriate actions to resolve such situations. (HKSQC 1.20)



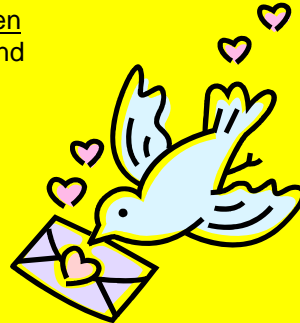
## HKSQC 1 – Ethical Requirements

- The policies and procedures should include requirements for:
  - a) All who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware;
  - b) The firm to promptly communicate identified breaches of these policies and procedures to:
    - i) The engagement partner who, with the firm, needs to address the breach; and
    - ii) Other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action; and
  - c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action. (HKSQC 1.20)



## HKSQC 1 – Ethical Requirements

- At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the Code. (HKSQC 1.23)



- Annual Confirmation to be Signed by Staff

(A Guide to Quality Control – Appendix D to Sample Manual)

## HKSQC 1 – Ethical Requirements

- The Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such a threat.
- Accordingly, the firm should establish policies and procedures:
  - a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
  - b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code. (HKSQC 1.25)

### Safeguards?

- Rotation of senior staff
- Conduct EQC Review

### Period?

- Not more 7 years

# HKSQC 1 – Ethical Requirements

Threat	Example	Possible Safeguards
<b>Self-interest</b>	An audit client who takes advantage of the fact that they are the largest client of the Firm and the loss of fees would be significant.	Firm-wide policy requires the appointment of an Engagement Quality Control reviewer on such engagements.
<b>Self-review</b>	A proposed member on the engagement team has recently worked for the assurance client and is in a position to exert direct and significant influence.	Firm-wide policies to: <ul style="list-style-type: none"> <li>• Identify such conflicts during the hiring process; and</li> <li>• Ensure staff who have a conflict are not assigned to the engagement team.</li> </ul>
<b>Advocacy</b>	The client asks the practitioner to attend a meeting with bankers to support their request for additional financing and answer some questions.	Firm-wide policy states that senior personnel may attend meetings between clients and bankers, but solely for the purpose of responding to information about assurance services provided.
<b>Familiarity</b>	The Firm or a person on the engagement team becomes too sympathetic to the client's interests.	Firm-wide policy prohibits staff or partners who have friends or family at the client from being on the engagement team.
<b>Intimidation</b>	The client has hinted that the Firm could be replaced if the practitioner continues to disagree with the application of a certain accounting principle.	The audit committee (or equivalent) should be fully informed and the Firm should consider third party consultations on the subject matter.

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# HKSQC 1 – Accept and Continue



## 3. Acceptance and Continuance

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## HKSQC 1 – Accept and Continue

- 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 relationships and engagements where it:
  - a) Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
  - b) Is competent to perform the engagement and has the capabilities, time and resources to do so; and
  - c) Can comply with ethical requirements.(HKSQC 1.28)



## HKSQC 1 – Accept and Continue

- The firm should obtain such information as it considers necessary in the circumstances
  - before accepting an engagement with a new client,
  - when deciding whether to continue an existing engagement, and
  - when considering acceptance of a new engagement with an existing client.
- Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement,
  - it should document how the issues were resolved.(HKSQC 1.28)



## HKSQC 1 – Accept and Continue

### Example

- List matters that the firm can consider with regard to the integrity of a client.
  - The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
  - The nature of the client's operations, including its business practices.
  - Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
  - Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
  - Indications of an inappropriate limitation in the scope of work.
  - Indications that the client might be involved in money laundering or other criminal activities.
  - The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.



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## HKSQC 1 – Accept and Continue

### Example

- List matters that the firm can consider with regard to the capabilities, competence, time and resources to undertake an engagement.
  - Firm personnel have knowledge of relevant industries or subject matters;
  - Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
  - The firm has sufficient personnel with the necessary capabilities and competence;
  - Experts are available, if needed;
  - Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
  - The firm is able to complete the engagement within the reporting deadline.

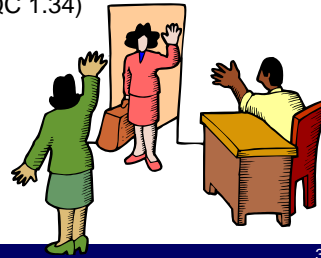
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## HKSQC 1 – Accept and Continue

- Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:
  - a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
  - b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship. (HKSQC 1.34)



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## HKSQC 1 – Accept and Continue

- Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:
  - Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
  - If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
  - Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
  - Documenting significant issues, consultations, conclusions and the basis for the conclusions.

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## HKSQC 1 – Accept and Continue

- Assurance Engagement Acceptance Form
- Assurance Engagement Continuance Form
- Engagement Acceptance/Continuance Risk Tolerance Workshop

(A Guide to Quality Control – Part C)



## HKSQC 1 – Human Resources



### 4. Human Resources

## HKSQC 1 – 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 in accordance with professional standards and regulatory and legal requirements, and
  - to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (HKSQC 1.36)

### 4. Human Resources

## HKSQC 1 – Human Resources

- Such policies and procedures address the following personnel issues:
  - Recruitment;
  - Performance evaluation;
  - Capabilities;
  - Competence;
  - Career development;
  - Promotion;
  - Compensation; and
  - The estimation of personnel needs.

## HKSQC 1 – Human Resources

- Capabilities and competence are developed through a variety of methods, including the following:
  - Professional education.
  - Continuing professional development, including training.
  - Work experience.
  - Coaching by more experienced staff, for example, other members of the engagement team.



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## HKSQC 1 – Human Resources

- The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities.
- The firm therefore
  - emphasizes in its policies and procedures the need for continuing training for all levels of firm personnel, and
  - provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence.
- Where internal technical and training resources are unavailable, or for any other reason,
  - the firm may use a suitably qualified external person for that purpose.



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# HKSQC 1 – Human Resources

## Example

- There are difficulties in finding appropriate trainings and trainers on all professional standards, including HKFRSs and HKSAAs.
- Can a firm choose to provide training on new standards which are applicable to the clients of the firm?

- A firm should try their best to provide trainings on all (especially) new professional standards.

“I accept that there have been a lot of new standards issued in the last few years but would not suggest that firms are too selective in choosing which are applicable to clients.

“In respect of auditing standards, I would suggest that selectivity is not an option as auditors are expected to understand how the entirety of the set of standards determines the extent and requirements of their work.”

# HKSQC 1 – Human Resources

- The firm’s performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles.
- In particular, the firm:
  - a) Makes personnel aware of the firm’s expectations regarding performance and ethical principles;
  - b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and
  - c) Helps personnel understand
    - that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and
    - that failure to comply with the firm’s policies and procedures may result in disciplinary action.



# HKSQC 1 – Human Resources

## Example

- Performance appraisal – Annual self-assessment and plan
- Performance appraisal – Annual
- Performance appraisal – Specific engagement

(A Guide of Quality Control – Part C)



# HKSQC 1 – Human Resources

## Assignment of Engagement Teams

- The firm should assign responsibility for each engagement to an engagement partner.
- The firm should establish policies and procedures requiring that:
  - a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;
  - b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and
  - c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.(HKSQC 1.42)



## HKSQC 1 – Human Resources

- The firm should also assign appropriate staff with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (HKSQC 1.44)



## HKSQC 1 – Engagement Performance



### 5. Engagement Performance

## HKSQC 1 – 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 issue reports that are appropriate in the circumstances. (HKSQC 1.14)

### 5. Engagement Performance

## HKSQC 1 – Engagement Performance

- Through its policies and procedures, the firm seeks to establish consistency in the quality of engagement performance.
- This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials.
- Matters addressed include the following:
  - How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.
  - Processes for complying with applicable engagement standards.
  - Processes of engagement supervision, staff training and coaching.
  - Methods of reviewing the work performed, the significant judgments made and the form of report being issued.
  - Appropriate documentation of the work performed and of the timing and extent of the review.
  - Processes to keep all policies and procedures current.



## HKSQC 1 – Engagement Performance

- **Supervision** includes the following:
  - Tracking the progress of the engagement.
  - Considering the capabilities and competence of individual members of the engagement team,
    - whether they have sufficient time to carry out their work,
    - whether they understand their instructions and
    - whether the work is being carried out in accordance with the planned approach to the engagement.
  - Addressing significant issues arising during the engagement, considering their significance and modifying the planned approach appropriately.
  - Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

## HKSQC 1 – Engagement Performance

- **Review responsibilities** are determined on the basis that more experienced engagement team members, including the engagement partner, review work performed by less experienced team members. Reviewers consider whether:
  - a) The work has been performed in accordance with professional standards and regulatory and legal requirements;
  - b) Significant matters have been raised for further consideration;
  - c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
  - d) There is a need to revise the nature, timing and extent of work performed;
  - e) The work performed supports the conclusions reached and is appropriately documented;
  - f) The evidence obtained is sufficient and appropriate to support the report; and
  - g) The objectives of the engagement procedures have been achieved.

# HKSQC 1 – Engagement Performance

- The firm's policies and procedures on engagement performance should include:

Consultation

Differences of opinion

Engagement Quality Control Review

Documentation

- Consultation policies and procedures should be established and designed to provide it with reasonable assurance that:
  - a) Appropriate consultation takes place on difficult or contentious matters;
  - b) Sufficient resources are available to enable appropriate consultation to take place;
  - c) The nature and scope of such consultations are documented; and
  - d) Conclusions resulting from consultations are documented and implemented. (HKSQC 1.51)

# HKSQC 1 – Engagement Performance

- Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.

Consultation

Consultation procedures require

- consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and
- appropriate documentation and implementation of conclusions resulting from consultations.

A firm needing to consult externally, e.g., a firm without appropriate internal resources, may take advantage of advisory services provided by (a) other firms, (b) professional & regulatory bodies, or (c) commercial organizations that provide relevant quality control services.

- To ensure whether the external provider is suitably qualified for that purpose.

# HKSQC 1 – Engagement Performance

## Example

### Consultation

- What kinds of issues should be subject to consultation?
- What kinds of appropriate consultation are available?
- Can a firm use the resources of professional accounting bodies, such as ACCA, ICAEW, HKICPA and SCAA for their consultation?



# HKSQC 1 – Engagement Performance

### Consultation

- The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted.
- The documentation is sufficiently complete and detailed to enable an understanding of:
  - a) The issue on which consultation was sought; and
  - b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.



# HKSQC 1 – Engagement Performance

## Differences of opinion



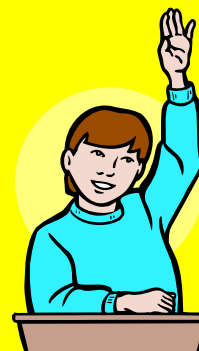
- The firm should establish policies and procedures for dealing with and resolving differences of opinion
  - within the engagement team,
  - with those consulted and, where applicable,
  - between the engagement partner and the engagement quality control reviewer.
- Conclusions reached should be documented and implemented. (HKSQC 1.57)
- The report should not be issued until the matter is resolved. (HKSQC 1.58)

# HKSQC 1 – Engagement Performance

## Example

## Differences of opinion

- How does a firm resolve differences in opinion?



## HKSQC 1 – Engagement Performance

- The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review (EQC Review) that provides an objective evaluation of
  - the significant judgments made by the engagement team and
  - the conclusions reached in formulating the report. (HKSQC 1.60)

Engagement Quality  
Control Review



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## HKSQC 1 – Engagement Performance

- Such policies and procedures should:
  - a) Require an EQC Review for all audits of financial statements of listed entities;
  - b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an EQC Review should be performed; and
  - c) Require an EQC Review for all engagements meeting the criteria established in compliance with subparagraph (b). (HKSQC 1.60)
- The firm's policies and procedures should require the completion of the EQC Review before the report is issued. (HKSQC 1.61)

Engagement Quality  
Control Review

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## HKSQC 1 – Engagement Performance

- The firm should establish policies and procedures setting out:
  - a) The nature, timing and extent of an EQC Review;
  - b) Criteria for the eligibility of EQC Reviewer; and
  - c) Documentation requirements for an EQC Review. (HKSQC 1.63)

### Engagement Quality Control Review



## HKSQC 1 – Engagement Performance

### Nature, Timing and Extent of the EQC Review

- An EQC Review ordinarily involves
  - discussion with the engagement partner,
  - a review of the financial statements or other subject matter information and the report, and,
  - in particular, consideration of whether the report is appropriate.

### Engagement Quality Control Review

- It also involves a review of selected working papers relating to the significant judgments the engagement team made and the conclusions they reached.

# HKSQC 1 – Engagement Performance

Example

## Nature, Timing and Extent of the EQC Review

- Issues to be considered in an EQC Review for audits of financial statements of listed entities include
  - The engagement team's evaluation of the firm's independence in relation to the specific engagement.
  - Significant risks identified during the engagement and the responses to those risks.
  - Judgments made, particularly with respect to materiality and significant risks.
  - Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
  - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
  - The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
  - Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
  - The appropriateness of the report to be issued.

# HKSQC 1 – Engagement Performance

## Criteria for the Eligibility of EQC Reviewers

- The firm's policies and procedures should address the appointment of EQC reviewers and establish their eligibility through:
  - a) The technical qualifications required to perform the role, including the necessary experience and authority; and
  - b) The degree to which an EQC reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (HKSQC 1.68)



## HKSQC 1 – Engagement Performance

### Criteria for the Eligibility of EQC Reviewers

- The firm's policies and procedures are designed to maintain the objectivity of the EQC Reviewer.
  - For example, the EQC Reviewer:
    - a) Is not selected by the engagement partner;
    - b) Does not otherwise participate in the engagement during the period of review;
    - c) Does not make decisions for the engagement team; and
    - d) Is not subject to other considerations that would threaten the reviewer's objectivity.



## HKSQC 1 – Engagement Performance

### Criteria for the Eligibility of EQC Reviewers

- Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews.
- Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews.
- Where the firm contracts suitably qualified external persons, the firm follows the described requirements and guidance.





# HKSQC 1 – Engagement Performance

## Documentation of EQC Review

- Policies and procedures on documentation of the EQC Review should require documentation that:
  - a) The procedures required by the firm's policies on EQC review have been performed;
  - b) The EQC review has been completed before the report is issued; and
  - c) The 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. (HKSQC 1.73)



# HKSQC 1 – Engagement Performance

- The firm's policies and procedures on engagement performance should include:
  - To complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized (HKSQC 1.73a)
    - Observe local laws and regulations
    - In or audit, **no more than 60 days** after the date of auditor's report
  - To maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (HKSQC 1.73d)

### Documentation

## HKSQC 1 – Engagement Performance

- The firm's policies and procedures on engagement performance should include:
  - For the retention of documentation for a period sufficient to meet the needs of the firm or as required by law or regulation (HKSQC 1.73i)
    - the retention period ordinarily is **no shorter than 5 years** from the date of the auditor's report, or, if later, the date of the group auditor's report

Documentation

## HKSQC 1 – Monitoring



6. Monitoring

## HKSQC 1 – 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,
  - including a periodic inspection of a selection of completed engagements. (HKSQC 1.74)



Ongoing Evaluation

Quality Assurance Review (QAR)

### 6. Monitoring

## HKSQC 1 – Monitoring

- The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:
  - a) Adherence to professional standards and regulatory and legal requirements;
  - b) Whether the quality control system has been appropriately designed and effectively implemented; and
  - c) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.



Ongoing Evaluation

## HKSQC 1 – Monitoring

- The firm entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.
- Monitoring of the firm’s system of quality control
  - is performed by competent individuals and
  - covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control.



Ongoing Evaluation

## HKSQC 1 – Monitoring

- Periodic inspection of a selection of completed engagement
  - Termed as Quality Assurance Review (QAR) in Practice Review Self-assessment Questionnaire
  - Ordinarily performed on a cyclical basis
  - Engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle, which ordinarily spans no more than three years
  - Includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team
  - Those inspecting the engagements (“the monitor”) are not involved in performing the engagement or the EQC Review

Quality Assurance Review (QAR)



## HKSQC 1 – Monitoring

- In determining the scope of the inspections, the firm may take into account the scope or conclusions of an independent external inspection program.
  - However, an independent external inspection program does not act as a substitute for the firm's own internal monitoring program.
- Small firms and sole practitioners may wish to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures.
- Alternatively, they may wish to establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.

Quality Assurance  
Review (QAR)



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## HKSQC 1 – Monitoring

Example

- What can be performed in QAR?



Quality Assurance  
Review (QAR)

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## HKSQC 1 – Monitoring

- The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either:
  - a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory and legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
  - b) Systemic, repetitive or other significant deficiencies that require prompt corrective action. (HKSQC 1.81)

Ongoing Evaluation

Quality Assurance  
Review (QAR)

## HKSQC 1 – Monitoring

- The firm should communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (HKSQC 1.82)



Ongoing Evaluation

Quality Assurance  
Review (QAR)

## HKSQC 1 – Monitoring

### Example

- What are the recommendations for each type of deficiency?
  - The firm's evaluation of each type of deficiency should result in recommendations for one or more of the following:
    - a) Taking appropriate remedial action in relation to an individual engagement or member of personnel;
    - b) The communication of the findings to those responsible for training and professional development;
    - c) Changes to the quality control policies and procedures; and
    - d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly. (HKSQC 1.83)

## HKSQC 1 – Monitoring

- Where the results of the monitoring procedures indicate
  - that a report may be inappropriate or
  - that procedures were omitted during the performance of the engagement,
    - the firm should determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements.
- It should also consider obtaining legal advice. (HKSQC 1.84)

Ongoing Evaluation

Quality Assurance  
Review (QAR)

## HKSQC 1 – Monitoring

- At least annually, the firm should communicate the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm, including the firm's CEO or, if appropriate, its managing board of partners.
- Such communication should enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities.
- Information communicated should include the following:
  - a) A description of the monitoring procedures performed.
  - b) The conclusions drawn from the monitoring procedures.
  - c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. (HKSQC 1.85)

Ongoing Evaluation

Quality Assurance  
Review (QAR)

## HKSQC 1 – Monitoring

- Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis.
- Where firms within a network operate under common monitoring policies and procedures designed to comply with this HKSQC, and these firms place reliance on such a monitoring system:
  - a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms;
  - b) The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and
  - c) Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.





## HKSQC 1 – Monitoring

- Appropriate documentation relating to monitoring:
  - a) Sets out monitoring procedures, including the procedure for selecting completed engagements to be inspected;
  - b) Records the evaluation of:
    - i) Adherence to professional standards and regulatory and legal requirements;
    - ii) Whether the quality control system has been appropriately designed and effectively implemented; and
    - iii) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances; and
  - c) Identifies the deficiencies noted, evaluates their effect, and sets out the basis for determining whether and what further action is necessary.



## HKSQC 1 – Monitoring

### Complaints and Allegations

- The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
  - a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
  - b) Allegations of non-compliance with the firm's system of quality control. (HKSQC 1.89)



## HKSQC 1 – Documentation

- The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (HKSQC 1.94)
- How such matters are documented is the firm's decision.
  - For example,
    - Large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections
    - Smaller firms may use more informal methods such as manual notes, checklists and forms.



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## Today's Agenda

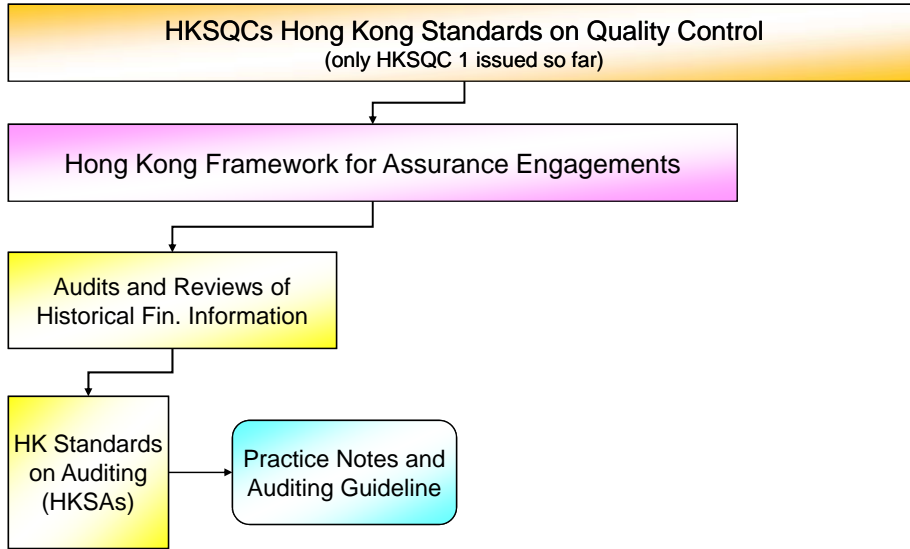


HKSA 220 (Quality Control for a Job)

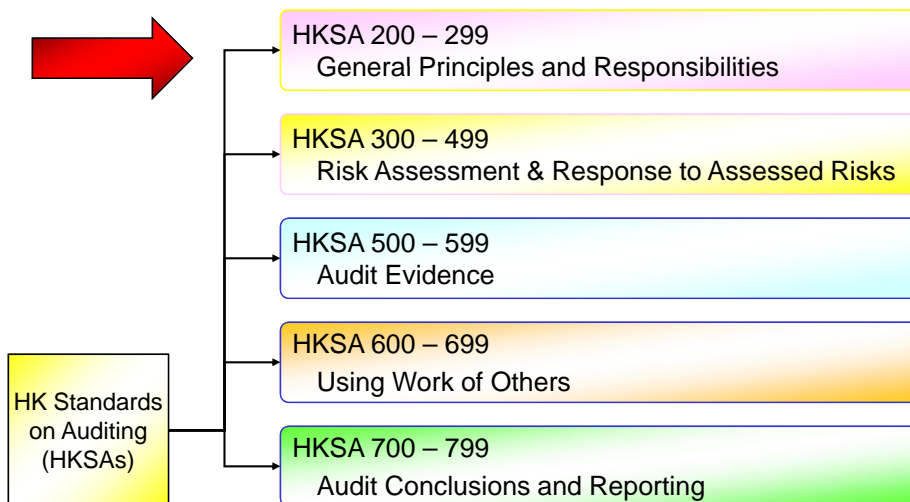
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# HKSQC and HKSA



# HKSQC and HKSA



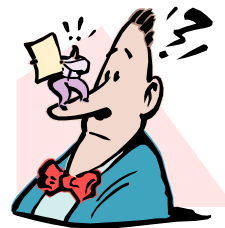
## General Principles and Responsibilities

### HKSA 200 – 299 General Principles and Responsibilities

- HKSA 200 Objective and General Principles Governing an Audit of Financial Statements
- HKSA 210 Terms of Audit Engagements
- HKSA 220 Quality Control for Audits of Historical Financial Information
- HKSA 230 Audit Documentation
- HKSA 240 The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements
- HKSA 250 Consideration of Laws and Regulations in an Audit of Financial Statements
- HKSA 260 Communication of Audit Matters with Those Charged with Governance

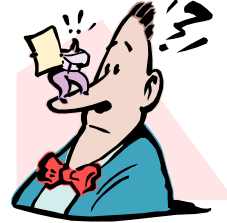
## General Principles and Responsibilities

- Generally, HKSAs 200 – 260 set out the general principles and responsibilities for a particular engagement on audit of historical financial information
- In particular, HKSA 220 sets out the quality control on a particular audit engagement
  - Similar to those set out in HKSQC 1
  - While HKSA 220 is tailored to an engagement on audit of historical financial information



# HKSA 220

- Certain responsibilities must be taken by the engagement partner, including
  - Overall quality of the engagement (HKSA 220.6)
  - Comply with the ethical requirements (HKSA 220.8)
  - Conclude on compliance with independence requirements that apply to the audit engagement (HKSA 220.12)
  - Satisfy appropriate procedures regarding the acceptance and continuance of client relationships followed (HKSA 220.14)
  - Satisfy the engagement team collectively having appropriate capabilities, competence and time to perform the engagement (HKSA 220.19)
  - Take responsibility for the direction, supervision and performance of the audit engagement (HKSA 220.21)
  - Be responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters (HKSA 220.30)



# HKSA 220

- Certain responsibilities must be taken by the engagement partner, including

1. Leadership Responsibility

2. Ethical Requirements

3. Acceptance and Continuance

4. Human Resources

- Assignment of Engagement Teams

5. Engagement Performance

6. Monitoring



# HKSQC 1 and HKSA 220

19 January 2008

Full version of the slides can be found in  
[www.NelsonCPA.com.hk](http://www.NelsonCPA.com.hk)



**Nelson Lam 林智遠**  
nelson@nelsoncpa.com.hk  
www.nelsoncpa.com.hk

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# HKSQC 1 and HKSA 220

19 January 2008

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**Nelson Lam 林智遠**  
nelson@nelsoncpa.com.hk  
www.nelsoncpa.com.hk

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