

## Commitment to excellence

By Chi Ho Ng

Illustration: Jason Schneider



**The new quality control system will allow public accounting firms to show their commitment to quality control**

On December 15, 2009, a new era of quality in Canadian auditing begins. As of this date, a new quality control standard comes into effect for all audits of financial statements taking place in Canada.

CSQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance Engagements replaces the existing standard, GSF-QC, or General Standards for Firms Performing Assurance Engagements. The new standard introduces a robust new quality control system that will benefit public accounting firms by allowing them to demonstrate a strong commitment to quality control.

CSQC 1 addresses the policies and procedures firms must put in place to establish and maintain a system of sufficient quality control to help them meet professional, legal and regulatory requirements. It outlines the necessary steps to provide reasonable assurance that assurance reports issued are appropriate given individual circumstances.

Understanding the new standard and how it applies to your firm's practice will help improve the quality of the work done for your clients. The experience gained in designing, implementing and monitoring quality control systems under GSF-QC can be effectively leveraged to comply with CSQC 1 regarding key activities. These activities include acceptance and continuance of client relationships, recruitment and professional development of staff, engagement performance management and inspection of completed engagements.

### **Attracting and retaining your client base**

Deciding to accept a new client or providing services to existing clients is part of daily business. Attracting and retaining the right clients is about ensuring they fit with your firm. Taking on an engagement where the firm has few capabilities or resources may expose the firm to potentially unacceptable risks of failing to properly perform the engagement, with resulting potential lawsuits or disciplinary actions. Also, from a business viewpoint, accepting or continuing to serve only appropriate clients will positively impact the firm's ability to attract and serve more clients productively.

There are numerous ways to introduce appropriate rigour into client acceptance and continuance decisions. For example, the firm may use a standardized questionnaire. For firms with two or more partners, the client acceptance/continuance process may include second partner approval using criteria agreed upon by the partners.

Client acceptance or engagement continuance considerations may include:

- partners' and staff's knowledge of the industry and experience with the regulatory and reporting requirements;
- the firm's access to experts who may be required;
- the firm's ability to meet the engagement reporting deadline;
- reasons the client left the predecessor audit firm;
- qualified reports issued in prior years;
- lawsuits or negative publicity surrounding the client;
- signs of tax evasion or criminal activity; and
- disciplinary actions taken against the client (for example, the Travel Industry Council of Ontario publishes disciplinary actions against travel agencies for violations of its regulations).

### **Recruitment and professional development of staff**

A firm is only as strong as the professionals it employs. To ensure firms have the capacity and competency necessary to meet their clients' needs, they may want to consider establishing rigorous policies and procedures for staff recruitment and professional development.

Firms may consider developing a standard job interview process and documentation of that process to allow them to better compare candidates. A probationary period could also be established for all new personnel, together with a performance review upon successful completion of the probation period, to minimize the risk of hiring the wrong person.

To ensure that sufficient staff resources are available for peak periods and avoid, for example, excessive workloads that can lead to quality of work issues, firms may consider developing detailed plans setting out expected hours per engagement and related staff assignment schedules. If potential resource shortages are identified, the firm may consider hiring qualified temporary staff or cooperating with another practice with different peak periods to allow both practices to be fully staffed.

Assigning an individual responsibility for approving attendance at professional development courses and reviewing records annually of professional development courses taken by partners and staff will help ensure that they have up-to-date knowledge to properly serve the firm's clients.

In-house training is often an effective approach. For instance, a firm may assign responsibility for monitoring new developments in accounting, assurance and tax to individual staff members and ask those individuals to present the new requirements and guidance to other members of the firm.

### **Engagement quality control review**

Sometimes known as concurring partner review or second partner review, engagement quality control review provides an objective assessment of the appropriateness of the key judgments made and conclusions reached in the engagement report that is issued.

An engagement quality control review not only reduces the risk of inappropriate reports being issued, but is also an effective safeguard against certain threats to independence. For example, a familiarity threat may arise when a partner has been providing services to a client for many years. One effective way to safeguard against this kind of threat may be to subject the engagement in question to an engagement quality control review.

Firms may benefit from making their engagement quality control review criteria more robust. For example, a firm may decide that a quality control review should be undertaken in circumstances when one or more of the following conditions exist:

- the client has many passive shareholders;
- significant risks have been identified with the decision to accept or continue the client engagement;
- the client has entered into substantial new and complex transactions, such as derivatives and hedges;
- significant judgments need to be made (for example, there are difficult asset valuation issues); or
- material uncertainty exists as to the client's ability to continue as a going concern.

The engagement quality control reviewer cannot be a member of the engagement team. In the case of smaller firms, an external professional may serve in that capacity or the firm may choose to contract with another firm to provide engagement quality control review services.

#### **Inspection of completed engagements**

An inspection of completed engagements, also known as file inspection, must be performed on a cyclical basis. File inspection may yield many benefits, not only related to improving the effectiveness of future work, but also improving efficiency and lowering costs. A file inspection may be an effective tool in identifying areas where engagement teams may need to update their knowledge of new accounting or auditing standards. Considering that new standards such as Canadian auditing standards, international financial reporting standards and GAAP for private enterprises will become effective in the next few years, it is prudent for firms to have a robust file inspection process in place.

CSQC 1 provides a list of factors that may affect how a firm organizes its inspection cycle, including the timing of selection of individual engagements. The following are examples of things a firm should consider in establishing an inspection process:

- a firm may find it prudent to inspect complex and/or high-risk engagements annually and other engagements less frequently;
- if results of external practice inspection programs (for example, by the provincial institutes or the Canadian Public Accountability Board) or internal monitoring have identified significant deficiencies in files completed by a particular engagement team, the firm may find it wise to inspect engagements completed by the particular engagement team more frequently and may select such files without prior notification to the engagement team;
- in the case of a firm with engagements in a variety of industries, or where different types of engagement are performed, a firm may select

engagements in a manner that allows it to inspect the full spectrum of industries and types of engagement.

CSQC 1 requires that professionals performing the engagement or the engagement quality control review not be involved in inspecting the completed engagement.

Smaller firms may need to use the services of a suitably qualified external person or another firm to carry out inspections of completed engagements. Such firms may arrange to share resources with other organizations to assist in certain monitoring activities.

Firms are required to have a quality control system compliant with CSQC 1 by December 15, 2009. Implementing this new quality control standard may look like extra work. However, as Thomas Edison said, "Opportunity is missed by most people because it is dressed in overalls and looks like work." Firms are well advised not to miss this opportunity to establish a robust quality control system.

---

*Chi Ho Ng, CA, CPA(IL), MBA, is a principal in the CICA's Auditing and Assurance Standards department*

*Technical editor: Ron Salole, vice-president, Standards, CICA*