

# Quality Control Framework for Statutory Audit of Financial Statements: A Comparative Study of USA, UK and India

Indian Journal of Corporate Governance  
9(2) 186–211

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Public Enterprise  
SAGE Publications  
sagepub.in/home.nav

DOI: 10.1177/0974686216668458

<http://ijc.sagepub.com>



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## Abstract

Quality control of audit procedure has become extremely important in today's corporate environment in the backdrop of accounting irregularities and audit failures leading to corporate demise. Accounting firms control the quality of audit procedure with the help of the quality control standard (QCS) and specific auditing standard. These standards provide reasonable assurance of compliance with applicable regulation and issuance of the appropriate report by the engagement team. After discussing the international scenario of quality control framework, in this study a comparative analysis of quality control policies and procedures at firm and engagement in three select countries has been presented. The countries selected are the United States of America (USA), the United Kingdom (UK) and India. The study finds that the QCS and the auditing standard in all three countries are designed in line with International Standards on Auditing (ISAs) and International Standards on Quality Control (ISQC)-I. Naturally, quality control policies and procedures in three countries are comparable barring few minor differences. Based on these differences, it can be concluded that the quality control framework in the UK and India is more stringent as compared to the USA.

## Keywords

Statutory audit, quality control, the United States of America, the United Kingdom, India

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## Introduction

In the current state of growing cases of accounting irregularities and audit failures all over the world, international and national regulators have considered the issue of quality control of the audit procedure with utmost importance. The QCS and specific auditing standard issued for monitoring quality control policies and procedures of an accounting firm are required to give reasonable assurance that all the members of the firm have complied with applicable professional standards and other regulatory requirements and issue reports which are appropriate in various circumstances. Hence, the QCS and the specific auditing standard comprise the quality control framework for statutory audit of financial statements.

Statutory auditors are entrusted with the responsibility of examining financial statements of a corporate enterprise based on sufficient and appropriate evidences and they report on 'true and fair' view of financial statements. They are supposed to detect and disclose material misstatements keeping in mind the existing regulatory and ethical requirements and issue their reports accordingly. Stakeholders depend upon such auditor's report assuming authentic and reliable financial information for taking their financial decision about the companies' financial performance. In most of the developed and developing countries, the statutory financial audit of corporate enterprises is conducted by accounting firms. Hence, a firm should establish a system of quality control to ensure that the firm and its partners comply with the required professional and legal and regulatory requirements and issue appropriate reports. This practice is followed to some extent or the other by most countries across the globe. This article makes a comparatively analyses of quality control policies and procedures followed in the USA, UK and India.

## Quality Control Procedure: International Scenario

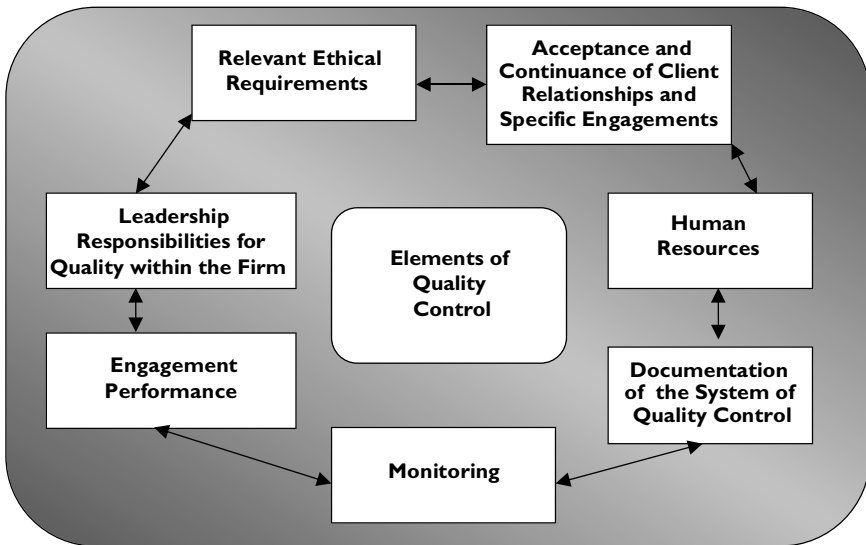
Regulations governing audit practices of companies in developed or developing countries are highly influenced by the standards and regulations issued by the International Federation of Accountants (IFAC), an international professional body. IFAC is a global organisation for accountancy profession located in the USA dedicated to serving the public interest by contributing to the development of high quality standards and guidance and facilitating their adoption and implementation by its member countries. IFAC comprises of 179 members and associations in 130 countries and jurisdictions, representing approximately 2.5 million accountants. Maintaining the quality of professional work of accountants is the main motto of IFAC (IFAC, n.d.). IFAC has four independent standards setting boards. International Auditing and Assurance Standards Board (IAASB) is one of them. IAASB issues International Standards on Auditing (ISAs) covering various aspects of auditing and International Standard on Quality Control (ISQC) incorporates responsibilities of an accounting firm in relation to maintaining the quality of a professional engagement. Member countries of IFAC either adapt to these standards without any modifications or adopt the same subject to country-specific requirements (IFAC, n.d.). Among all the

standards issued by IAASB, ISQC-1 on 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' and ISA-220 on 'Quality Control for an Audit of Financial Statements' deal with the quality control procedure for statutory audit of financial statements.

### Quality Control for Firm's Engagement

An engagement refers to a work that an accounting firm performs. More specifically, at the initial stage of undertaking an activity, when the accounting firm notifies the client about its acceptance and clarifies its understanding about the purpose of the job, the accounting firm is said to be engaged. While ISQC-1 controls the quality of all forms of engagement of an accounting firm (such as audit, review of financial statements, other assurance engagements, related service engagements and so on), its provisions are most important for the audit engagements.

The elements of quality control in the light of ISQC-1 are depicted in Figure 1. Important requirements under ISQC-1 are discussed below



**Figure 1.** Elements of a System of Quality Control

**Source:** Compiled by authors based on ISQC-1.

### Leadership Responsibilities for Quality within the Firm

The Chief Executive Officer (CEO) or a partner of the accounting firm should establish an internal culture recognising quality as an important attribute of professional engagements. Specific leadership responsibilities for qualities within the firm include:

- Communication of the overriding importance of quality to all personnel through training seminars, meetings, formal or informal dialogue, mission statement and so on;
- Appraisals and promotion of an employee based on their commitment towards quality control;
- Recognition of compliance with quality control policies;
- Allocation of sufficient resources to ensure compliance with quality control policies; and
- Ensuring each and every person within the firm has sufficient and appropriate experience and ability to identify issues that have significant bearing on the quality of professional engagements.

### **Relevant Ethical Requirement**

Accounting firms should comply with ethical requirements as laid down under the Code of Ethics for Professional Accountants issued by International Ethical Standard Board of Accountants (IESBA) under IFAC. The firm should obtain a written confirmation on compliance with these ethical requirements from all the members and maintain a database of these written confirmations.

### **Independence**

Independence of engagement partner is the most important determinant of engagement quality. The responsibility of the firm in relation to maintaining the independence of engagement partners and other members of the engagement team are:

- Obtaining information on scope and nature of service in a professional engagements or any change of circumstances that may pose significant threats to the independence of the engagement partner or any other member of the engagement team;
- Application of appropriate safeguards to reduce these threats to an acceptable level;
- Rotating an engagement partner after a period of seven years to reduce familiarity threats to the independence;
- Withdrawal from the engagement, if threats to the independence could not be reduced even after applying safeguards;
- Communication of the identified breach of independence requirement by any of the members to the partner or any other person responsible for addressing the breach; and
- Assessing the requirement of additional action to address that breach.

### **Acceptance and Continuance of Client Relationship and Specific Engagements**

For accepting a professional engagement, the firm should collect information on their ability (e.g., competence of the engagement partner or other firm personnel in terms of knowledge in the industry of client and regulatory and reporting requirement; ability of the employees to gather skills for specific engagement; and time allowed to complete the engagement procedure) and client profile (e.g., profile of the principal owner and key management persons or those charged with governance, aggressive interpretation of accounting standards or internal control policies, fees paid to accounting firms, or any other criminal activities the client was involved with). Based on this information, if the firm thinks that they can

perform an engagement with necessary competence and independence, they should accept the engagement.

In case of continuing an engagement, the firm should collect information on the changing circumstances of the client ([e.g., client expanding business to an area where the firm does not have the necessary expertise) and decide whether the firm can continue with the engagement with necessary competence and independence.

A firm should not accept or continue with an engagement if there are any conflicts of interest between the firm and audit client. If the firm decides to withdraw the audit engagement from the client company, it is essential to consult the matter with client company's officials who are charged with governance. In some cases they may even consult with the regulatory authority.

### **Human Resources**

Responsibilities of a firm in relation to human resources involve:

- Recruiting individuals with necessary competence, capacities and ethical orientation to perform professional engagements and provide them with necessary professional education and training for their continuous professional development;
- Coaching by more experienced staff to help new recruits to understand his professional requirements;
- Appraising performance of the members on the basis of their competence and commitment towards quality control policies;
- Compensating and promoting members based on such appraisal; and
- Disciplinary sanctions for non-compliant members.

Within this framework, an engagement partner is required to intimate their identity, roles and responsibility to the client management and those charged with governance and have necessary competence and ethical commitment to perform professional engagements effectively.

### **Engagement Performance**

Performance of a quality engagement requires an accounting firm to perform following activities:

- Briefing the engagement team of their objective, process of complying with engagement standards, process of reviewing, supervising and documenting the engagement procedure;
- Supervision of the engagement procedure in terms of the tracking progress of engagement, assessing competence and capabilities of engagement team members, assessing sufficiency of time availability to complete the engagement procedure, controlling the engagement procedure as per plan, identifying circumstances that require changing of plan, consulting with experienced members of the team and so on; and
- Review of the engagement procedure in terms of compliance with applicable regulatory requirement, nature, extent and scope of engagement, objective of engagement procedure and conclusion reached on consultancy taken on specific issues and so on.

**Consultation**

Difficult and contentious matters in an engagement procedure should be discussed with resources with technical or ethical expertise within or outside the firm. The person consulted should have sufficient knowledge on the matter on which consultation is sought. Conclusion of the consultation should be properly documented. Decision taken out of the consultation should be properly implemented.

**Engagement Quality Control Review**

If the engagement is an audit engagement, or engagement involving a matter of public interest or having unusual circumstances or is required by law, significant judgements made in those engagements should be objectively evaluated before the engagement report gets published. This process is known as the Engagement Quality Control Review (EQCR). The responsibility of a firm in relation to the EQCR procedure are summarised as follows:

- Deciding the nature, timing and extent of such review and
- Requiring the reviewer to discuss significant matters with engagement partners, review financial and other matters based on which the engagement report is issued, evaluate compliance with independence requirement, appraise consultation taken on difficult matters, review communication with those charged with governance or regulatory bodies, examine significant judgements made by the engagement team and assess the appropriateness of judgements.
- Requiring the reviewer to have sufficient technical expertise, experience and objectivity from the engagement partner or any member of the engagement team, and the authority to work as an audit engagement partner of financial statements in a listed entity;
- Replacing the reviewer if he does not possess any of the aforesaid qualities; and
- Maintaining a proper documentation of the EQCR procedure containing therein a declaration of completion of the review process before the report date and any unresolved matter that could cause the reviewer to believe that significant judgements in a particular situation is not appropriate.

**Difference of Opinion**

The firm should continuously consult an EQC reviewer to avoid future discrepancies on any engagement related issues. If differences of opinion between the engagement partner and the reviewer are created, the report should not be published until the differences are resolved.

**Engagement Documentation**

Responsibility of firms in relation to the engagement documentation can be summarised as follows:

- Arranging the final assembly of engagement files within stipulated period after publication of the engagement report (e.g., in case of audit engagement, this period is not more than 60 days);
- Maintaining integrity, confidentiality and safe custody of the engagement documents (using password among engagement team members, electronic

backup of engagement documents, scanned copies of original documents, proper distribution of engagement documents at the start of engagement and collecting it at the end of the engagement and so on);

- Monitoring engagement documents to increase data protection and minimise unauthorised access;
- Retaining engagement documents for a particular period (in case of audit, this period is five years); and
- Allowing some person within the firm to review few documents for the quality control purpose within the retention period.

### **Monitoring**

A partner who has sufficient expertise and experience and who is not involved in the engagement procedure may take up the following monitoring responsibilities:

- Deciding whether quality control policies of the firm are properly designed and implemented;
- Examining whether recent developments in the laws have been reflected in quality control policies;
- Conducting the inspection of an engagement procedure by an engagement partner on a cyclical basis without giving prior intimation to the engagement team;
- Dealing with allegation against the firm or any personnel thereof of non-compliance with applicable regulatory requirements by a person within or outside the firm;
- Taking disciplinary actions against the members who do not comply with quality control policies;
- Examining deficiency in quality control policies and taking corrective actions; and
- Communicating the description of the monitoring procedure, reaching conclusion and making changes in quality control policies to all engagement partners, the person responsible for training new accountants and other individuals in the firm including the CEO or managing partner.

### **Documentation of the System of Quality Control**

A firm should communicate their quality control policies and procedures to all interested parties. The nature and extent of such communication depends upon the size and degree of operation of the firm. These communications are normally made through documentation. Documentation of quality control includes:

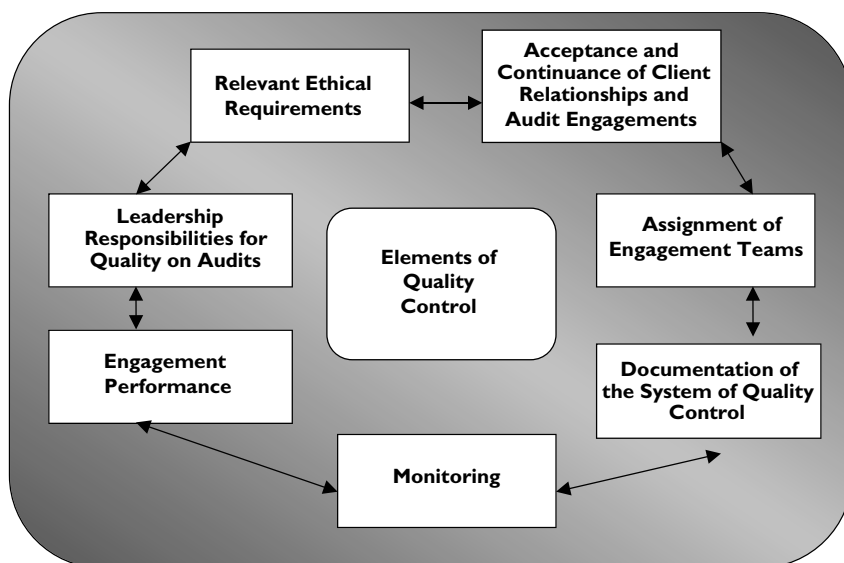
- Compliance with the independence and other regulatory requirement by the engagement team;
- Issuance of the report by the engagement team which is appropriate in circumstances; and
- Process of monitoring by the accounting firm and so on.

All these quality control documentation should be kept for sometime subject to quality control policies of the firm or requirement of laws or regulations.

## Quality Control for Audit

In the light of quality control policies and procedures designed by the firm, every audit engagement team under a firm also devise quality control policies for their particular engagement. ISA-220 is the guiding standard for this purpose. While the elements of ISQC-1 and ISA-220 are almost similar, ISQC-1 is designed for the entire accounting firm, whereas ISA-220 is applicable to a particular audit engagement.

Elements of the system of quality control as per this standard are shown in Figure 2. Specific requirements under ISA-220 are discussed as follows:



**Figure 2.** Elements of a System of Quality Control

**Source:** Compiled by author based on ISA-220.

### Leadership Responsibilities for Quality on Audit

The leadership responsibilities of an engagement partner in an engagement are recognising the need of quality in audit, performing quality audit and raising concern without the fear of reprisal that would give a message to other engagement team members to behave in the similar line.

### Relevant Ethical Requirement

The engagement partner should remain alert throughout the engagement process to identify any cases of non-compliance with relevant ethical requirement. If such non-compliance is intimated to him/her by the firm's system of quality control, the engagement partner should decide the appropriate action.

### Independence

Independence of the audit is of utmost importance. Responsibilities of an engagement partner in relation to maintaining the independence in an audit engagement are:

- Gathering necessary information about the audit client and identifying circumstances that pose a threat to their independence;



- Deciding appropriate safeguards to reduce those threats to an acceptable level in consultation with the appropriate person in the firm; and
- Withdrawal from engagement if threats cannot be removed or reduced to the acceptable level even after applying safeguards.

### **Acceptance and Continuance of Client Relationship and Audit Engagements**

If the client profile allows an engagement partner to accept or continue an audit engagement with necessary competence and independence, they should proceed with such engagement. However, if the engagement partner obtains any information on the client that may require them to decline the engagement, they should promptly inform the matter to the appropriate person in the accounting firm responsible for the quality control.

### **Assignment of Engagement Teams**

An engagement partner should be satisfied that all the members of the engagement team, auditors' expert and consultants have an understanding on the relevant legal and regulatory requirement and quality control policies of the firm, understanding on the industry of the client, necessary technical expertise and training in the relevant area and ability to apply professional judgements.

### **Engagement Performance**

Responsibilities of an engagement partner in relation to performance of the engagement procedure are:

- Communicating the engagement team of their relevant ethical requirements, need for performing engagement with professional skepticism, responsibilities of individual team members, objective of the work performed, nature of the client, risk related issues, problem areas that may arise and a detailed approach for performance of the engagement;
- Supervising engagement performance;
- Reviewing engagement performance as per the firm's quality control policies;
- Reviewing select audit documents before the publication of audit reports to verify their judgements on difficult and contentious areas or areas of significant risks; and
- Documenting the extent and timing of such review.

### **Consultation**

If the engagement partner or any member of the engagement team faces difficult or contentious matters, they can take consultation within the engagement team, from other engagement teams of the firm, any other member of the firm or any person outside the firm having relevant technical or ethical expertise, knowledge and experience to give consultation on such matters. The person consulted should have the necessary information on which consultation is sought. The conclusion reached out of consultation should be properly documented and decision on the consultation should be implemented.

### **EQCR**

In case of audit engagements in listed entities or any other audit engagements for which quality control review is necessary, the firm should appoint an EQCR.

The standard specifies responsibilities of the reviewer to identify significant judgements made by an engagement team in relation to the significant risk of material misstatement, responses to those risks and the risk of fraud. The process of review should be complete before publication of the audit report and the entire process should be properly documented.

### **Difference of Opinion**

If differences of opinion arise between the engagement partner and consultants or EQCR, the engagement partner should resolve such differences based on quality control policies of the firm.

### **Monitoring**

An engagement partner is required to take necessary action to deal with deficiencies identified in quality control policies of the firm by the firm's system of monitoring.

### **Documentation**

An engagement partner should document following issues in relation to the quality control of a particular engagement:

- Compliance with relevant ethical and independence requirement by the engagement team;
- Basis for accepting or continuing with an audit engagement;
- Issue on which consultation was sought and decision on the basis of consultation;
- The process of EQCR;
- A declaration that EQCR was complete before publication of the audit report; and
- Unresolved matters unknown to the reviewer that would lead the reviewer to believe that significant judgements made by the engagement team and conclusion reached were not appropriate.

It is evident from the previous discussion that the elements of ISQC-1 are different from that of ISA-220. Apparently, the elements of both these standards seem to be similar but their applicability is completely different. While the former is applied to all types of engagements of an accounting firm, ISA-220 is applied to a particular audit engagement.

Now, let us consider three countries, the USA, the UK and India and discuss about their quality control framework for statutory audit of financial statements in the light of these two governing standards and make a comparative analysis among them.

## **Review of Quality Control Framework for Statutory Audit**

### ***The USA***

In the USA, the statutory financial audit is conducted by certified public accountants (CPAs) and their operations are governed by American Institute of Certified Public Accountants (AICPA). AICPA issued the Statement on Quality Control Standard (SQCS)-8 on 'A Firm's System of Quality Control' to monitor quality

control policies and procedures of CPA firms except government audit organisations, where the quality control of audit and assurance engagements is governed by government auditing standards. SQCS-8 specifies the requirement of a firm to attain quality in all their forms of engagements. These requirements are classified as Unconditional Requirements, which are required to be fulfilled in all circumstances and Presumptively Mandatory Requirements, which the firm should fulfil but can avoid depending on firm's specific circumstances. SQCS-8 has been framed in line with ISQC-1. Therefore, the elements of the system of quality control and majority of their requirements are same in both these standards. However, with a view to ensuring ease of application of this standard, its language has been simplified and few provisions have been modified in concurrence with the economic environment of the USA. Certain major differences in this standard compared to ISQC-1 have been pointed out below:

- Unlike ISQC-1, SQCS-8 does not give additional importance to familiarity threat to independence.
- As per SQCS-8, the firm needs to obtain an understanding of the nature, scope and limitations of the service to be rendered to the client for acceptance and continuance of the client relationship, which is not a necessary condition as per ISQC-1.
- While ISQC-1 requires the EQCR report to be published before the engagement report is dated, this standard states that the date of engagement report is also a significant judgement made by the engagement team. Therefore, it should also be reviewed by the EQC reviewer.
- As the EQC reviewer is not a member of the engagement team, the firm should set necessary policies and procedure to ensure compliance by the EQC reviewer with applicable independence requirements which is not mandatory as per ISQC-1
- SQC-8 requires member of the engagement team to document the difference of opinion and conclusion reached which is not mandatory as per ISQC-1.
- ISQC-1 does not allow the EQC reviewer to get involved in the monitoring process. However, it is not mandatory requirement as per the provision of this standard.
- As per ISQC-1, one completed engagement should be reviewed on a cyclical basis. However, SQCS-8 follows a risk-based approach and reviews only those engagements which are more risky than others.
- As per ISQC-1, the person responsible for monitoring also comes under the purview of compliance with quality control policies. However, this is not a mandatory requirement as per this standard.
- Under ISQC-1, the quality control documentation is retained for monitoring purposes. But, as per this standard, it is retained not only for monitoring procedures but also for peer review of the firm.

Quality control policies at the firm-level are designed and executed as per the provisions of SQCS-8. At the engagement level, quality control policies are framed as per the provisions of Statement of Auditing Standard (SAS-122 (AICPA, 2012a). The Auditing Standards Board (ASB) under AICPA has redrafted all of the auditing

sections in Codification of Statements on Auditing Standards. As the ASB redrafted the standards for clarity, it also converged with the standards with the ISAs, issued by IAASB. As part of the clarity project, the 'AU-C' identifier was established for the redrafted SASs. SAS-122 (AICPA, 2012a) on 'Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards' deals with specific responsibilities of an auditor or in some cases, EQCR regarding the quality control procedure for an audit of the financial statement. Other engagements conducted in accordance with Generally Accepted Auditing Standards (GAAS) also come under the purview of this standard. This SAS dictates the responsibilities of the engagement team in relation to the implementation of quality control policies of the firm applicable to the team and providing necessary information about the client to the firm. The engagement team can rely on firm's system of quality control unless they receive any information from the firm or other parties that lead them to believe or act otherwise. The requirements under this standard are not much different from the requirements under ISA-220.

### ***The UK***

In the UK, the Financial Reporting Council (FRC) is entrusted with the duty of controlling quality control policies of the accounting firms. In 2004, the FRC adopted ISAs and ISQC-1 issued by IAASB under IFAC with few minor modifications and issued ISAs (FRC, 2009) and ISQC-1 (FRC, 2010) for controlling auditing and quality control mechanisms in accounting firms in the UK. Since then, quality control policies and procedures of an accounting firm in the UK are monitored by ISQC-1 (FRC, 2010) on 'Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements'. Individual responsibilities of the firm's leadership in relation to the formulation of policies under aforesaid heads have been set out in this standard. Some of these requirements may not be applicable to an UK firm based on nature of their operation. Likewise, in some cases, the firm may need to formulate additional policies beyond the scope of this standard. The firm designs its quality control policies in line with the guideline stipulated under this standard. The requirements of this standard are exactly the same with ISQC-1 as already discussed. The engagement partner and EQCR are supposed to design their policies to maintain the quality of a particular audit engagement. The guiding auditing standard referred for this purpose is ISA-220 (FRC, 2009). Elements and requirements under this standard is exactly the same with ISA-220 as already discussed.

### ***India***

In India, quality control policies and procedures of accounting firms are governed by ISQC-1 titled, 'Quality Control for Firms that Performs Audits and Reviews of Financial Statement, and Other Assurance and Related Service Engagements' issued by the Institute of Chartered Accountants of India (ICAI). The standard

provides a detailed guideline to a firm for the formulation of quality control policies and procedures. As per this standard, the firm refers to all sole practitioners, proprietorship or partnership firm or any entity of professional accountants. The requirements of SQC-1 are almost similar with that of ISQC-1 keeping in view specific requirements of the Indian economic environment. A few key differences between SQC-1 and ISQC-1 are pointed out as follows:

- ISQC-1 defines a firm as sole practitioner, partnership, corporation and so on. In the definition of SQC-1, the firm consists of sole-practitioner, proprietor and partnership;
- ISQC-1 has some additional provisions for accounting firms providing audit services to public sector entities. SQC-1 does not have any additional provision of this nature;
- SQC-1 considers familiarity threat to be an important threat to the independence of engagement partners. Engagement partners should be rotated after a period of seven years except in situations where the audit client is a listed entity and the engagement partner is a sole practitioner or proprietor. ISQC-1 mandates rotation of auditor after seven years for all types of engagements;
- SQC-1 mandates peer review of specific engagements to reduce the possibility of familiarity threat which is not mandatory as per ISQC-1;
- As per SQC-1, the EQC reviewer should be a member of the ICAI. But as per ISQC-1, members of other professional bodies allowed to provide quality control services are also allowed to be the EQC reviewer; and
- As per SQC-1, the engagement documentation is required to be kept for a period of seven years, whereas it is required to be kept for a period of five years as per ISQC-1.

An engagement partner maintains the quality of an audit engagement subject to the provision of Standard on Audit (SA) 220 on 'Quality Control for an Audit of Financial Statement'. It set out the responsibilities of an engagement partner and an EQC reviewer in an audit engagement. SA-220 is designed based on ISA-220 keeping in mind the specific requirements of the Indian economic environment. ISA-220 imposes some additional requirements on the engagement partner, where the audit engagement is accepted in a public sector entity. But SA-220 applies to all forms of audit engagements equally. Barring this small difference, the requirement of ISA-220 is not significantly different from that of SA-220.

## **Comparison between the USA, the UK and India**

### *Comparative Analysis of Quality Control Procedure at Firm-level*

This segment makes an attempt to comparatively analyse quality control policies and procedures taken up by the accounting firms of the USA, the UK and India based on QCS applicable in each of these three countries. Different elements of the system of quality control as identified in the QCS, which are eventually same in all three countries are used as the parameter of analysis. Table 1 shows comparative analysis among the three countries.

**Table I.** Comparison of Quality Control Procedure at Firm-Level

Parameters	The USA	The UK	India
<b>Leadership Responsibilities for Quality within the Firm</b>	<ul style="list-style-type: none"> <li>• In the USA, the main leadership responsibility is the formulation of quality control policies.</li> <li>• Accounting firms also make policies for allocating resources for compliance with quality control policies.</li> <li>• Compliance with these policies should also be recognised.</li> <li>• The accounting firm also needs to communicate the importance of quality to other members.</li> </ul>	<ul style="list-style-type: none"> <li>• As per ISQC-1 (FRC, 2010), the firm needs to frame quality control policies and assign resources for their compliance.</li> <li>• The leadership of a firm should also acknowledge such compliance and impart the importance of quality to other members of the firm.</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership responsibilities of an accounting firm as per SQC-1 are relatively simple.</li> <li>• Here, the managing partner formulates and implements quality control policies and impart a uniform culture of quality throughout the organisation.</li> </ul>
<b>Relevant Ethical Requirement</b>	<ul style="list-style-type: none"> <li>• As per SQCS-8, all the members must comply with the Code of Conduct issued by AICPA.</li> <li>• The firm should communicate the independence requirement to each engagement team.</li> <li>• They should also obtain information on threats to independence and related safeguards.</li> <li>• Breach with the independence requirement by any member should be appropriately dealt with.</li> </ul>	<ul style="list-style-type: none"> <li>• In the UK, professional accountants of different regions are governed by the accounting firm of that region.</li> <li>• Accordingly, there are several accounting firms in the UK, such as Institute of Chartered Accountants of England &amp; Wales (ICAE&amp;W), Institute of Chartered Accountants of Scotland (ICAS), Institute of Chartered Accountants of Ireland and so on..</li> </ul>	<ul style="list-style-type: none"> <li>• In India, members of the accounting firm are supposed to comply with the Code of Ethics issued by the ICAI.</li> <li>• In addition to communicating the independence requirement to engagement teams, identifying threats and safeguards of an engagement and dealing with breach,</li> </ul>

(Table I Continued)

(Table 1 Continued)

Parameters	The USA	The UK	India
		<ul style="list-style-type: none"> <li>Each of these institutes has their own Code of Ethics and ISQC-I (FRC, 2010) says that a professional accountant of a particular region should conform to the Code of Ethics of its governing institute</li> <li>Here also, the accounting firm conveys the independence requirement to engagement teams and collects information about threats and safeguards of a particular engagement.</li> <li>Any non-compliance is also to be taken seriously.</li> </ul>	<p>SQC-I requires an accounting firm to implement the rotation of auditor after every seven years of engagement.</p> <ul style="list-style-type: none"> <li>It also mandates peer review of significant engagements</li> </ul>
<b>Acceptance and Continuance of Client Relationship</b>	<ul style="list-style-type: none"> <li>In the USA, the accounting firms obtain necessary information about the client and decide whether an engagement can be performed with necessary independence and competence.</li> </ul>	<ul style="list-style-type: none"> <li>Just like the USA, in the UK too the firms acquire required information about the client and judge necessary independence and competence required for that engagement.</li> <li>In case of subsequent engagements, they collect information on the changing structure of the client.</li> <li>If there is any conflict of interest, the firm should not accept such engagement or withdraw from it if already accepted.</li> </ul>	<ul style="list-style-type: none"> <li>As per SQC-I, firms gather necessary information and take decision about a particular engagement.</li> <li>Independence and competence are the main criteria there.</li> </ul>

(Table 1 Continued)

*(Table 1 Continued)*

Parameters	The USA	The UK	India
	<ul style="list-style-type: none"> <li>• They also try to understand the nature, scope and limitations of services in a client company.</li> </ul>		<ul style="list-style-type: none"> <li>• At the time of continuous engagement, any changing structure of the client should be duly noted and its implication on competence and independence should be evaluated.</li> <li>• If there is any conflict of interest, the firm should withdraw from engagement whenever necessary.</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• The firms should recruit and assess a person based the on quality criteria set as per SQCS-8.</li> <li>• Remuneration is decided on the basis of such assessment.</li> <li>• If any member does not comply with quality control policies, disciplinary actions should be taken.</li> <li>• Sufficient skills should be maintained for the recruited persons.</li> </ul>	<ul style="list-style-type: none"> <li>• Just like the USA, in the UK too firms set a quality criteria and recruit personnel on that basis.</li> <li>• Their remuneration is decided based on the assessment of their performance. However, penal actions are taken if they are non-compliant with applicable quality control policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Like other two countries, in India too appointment is done to those who fit the quality control benchmark of the firm.</li> <li>• Their remuneration is also decided based on their performance appraisal. However, punitive actions are there for those who breach the applicable policies.</li> </ul>

*(Table 1 Continued)*



(Table 1 Continued)

Parameters	The USA	The UK	India
<b>Engagement Performance</b>	<ul style="list-style-type: none"> <li>As per the standard, the firm should brief the engagement team about the engagement procedures.</li> <li>Engagement performances are to be supervised and reviewed.</li> <li>The firm should take consultations on difficult and contentious matters.</li> <li>EQCR should be made and the EQCR report should be published after publication of the engagement report.</li> <li>The firm should also look into the independence of the EQC reviewer.</li> <li>If there is any difference of opinion between the engagement partner and the EQC reviewer, it should properly dealt with. The conclusion reached should be appropriately documented.</li> <li>Finally, the whole process of the engagement is to be documented.</li> </ul>	<ul style="list-style-type: none"> <li>As per ISQC-1 (FRC, 2010), the firm should not only consult its engagement teams about the engagement procedures but also administer their performance from time to time.</li> <li>The firm should take opinions of expert on critical matters.</li> <li>EQCR must be implemented. However, unlike the USA the EQCR report should be published before publication of the engagement report.</li> <li>The firm should manage any argument between the auditor and the EQC reviewer and document the conclusions reached.</li> <li>Finally, this standard requires the firm not only to prepare engagement documents but also to retain it for a minimum period of five years.</li> </ul>	<ul style="list-style-type: none"> <li>In India too, the firm meets engagement teams at the beginning of every engagement procedure and thoroughly monitor the entire process.</li> <li>They also talk to external third parties about complex issues.</li> <li>The provision with respect to EQCR in this standard is same as that of the other two countries. However, here the EQCR report is to be published before publication of the engagement report.</li> <li>SQC-1 also mandates retaining the engagement report; however, for a longer period of seven years.</li> </ul>

(Table 1 Continued)

(Table 1 Continued)

Parameters	The USA	The UK	India
<b>Monitoring</b>	<ul style="list-style-type: none"> <li>• A risk-based approach is followed while monitoring quality control policies of the firm.</li> <li>• The person responsible for monitoring may not necessarily come under the quality control framework.</li> <li>• The firms generally monitor design and implementation of quality control policies.</li> <li>• They should observe whether the policies reflect recent regulatory reforms.</li> <li>• Inspection of the engagement procedure is to be made and allegations against the firm are to be managed.</li> <li>• If there is a breach of quality control policies, taking disciplinary actions also come under monitoring.</li> <li>• In this respect, the firm should also examine deficiencies in quality control policies and take corrective actions.</li> <li>• The result of monitoring is communicated to all the members of the engagement team.</li> </ul>	<ul style="list-style-type: none"> <li>• Here, monitoring is done on a recurring basis and the person responsible for monitoring comes under the quality control framework.</li> <li>• Plan and implementation of quality control policies are mainly monitored in the UK.</li> <li>• Here, the firms should also look into incorporation of recent regulatory reforms in quality control policies.</li> <li>• They should not only review the engagement procedure but also address the complaints against the firm.</li> <li>• Appropriate punitive actions are necessary for breach of quality control policies.</li> <li>• Limitations in the quality control framework should be inspected into for taking remedial actions.</li> <li>• The result of monitoring is informed to all engagement teams.</li> </ul>	<ul style="list-style-type: none"> <li>• A cyclical method is followed for monitoring quality control policies in India.</li> <li>• Just like the UK, here the person responsible for monitoring comes under the quality control framework.</li> <li>• In line with the UK, in India too firms monitor design and implementation of quality control policies keeping in view recent regulatory changes,</li> <li>• Examination of engagement procedures, coping with accusations against the firm, dealing with non-compliance, examining deficiencies and adopting counteractive actions also come under its purview.</li> <li>• Communicating the monitoring result to engagement teams also come under its parlance.</li> </ul>

(Table 1 Continued)

(Table 1 Continued)

Parameters	The USA	The UK	India
<b>Documentation of the System of Quality Control</b>	<ul style="list-style-type: none"> <li>A firm maintains the documentation of compliance with ethical requirements, engagement procedures and the monitoring process.</li> <li>It is maintained for monitoring and peer review purposes.</li> </ul>	<ul style="list-style-type: none"> <li>Observance with ethical need, the engagement and monitoring process are documented by a firm as per the provision of this standard. However, the documentation here is done mainly for monitoring purposes.</li> </ul>	<ul style="list-style-type: none"> <li>In India too, documents are maintained to facilitate monitoring.</li> <li>Records of conformity with ethical requirements, engagement reports and documents relating to monitoring are preserved.</li> </ul>

**Source:** Comparable Sections of SQCS-8, ISQC-1 (FRC, 2010) and SQC-1.

Quality control procedure at the firm level is monitored with the help of quality control standard issued by the professional institute in all three countries. In the USA, the UK and India, names of the applicable standards are SQCS-8, ISQC-1 (FRC, 2010) and SQC-1 respectively. All three standards are formulated in line with ISQC-1, issued by IAASB under IFAC.

In all three countries, leadership responsibilities with respect to the maintenance of quality are performed by the CEO or managing partner of the firm. They not only formulate quality control policies but also allot available resources for their proper implementation. By communicating the need for quality to members in a firm, they maintain an internal culture.

Relevant ethical requirements are almost same in each of these countries. All members of the firm should comply with the applicable code of ethics of the governing professional institute. The firm should communicate the independence requirement to the engagement team and obtain information from them on threats to independence. The firm should also apply necessary safeguards to reduce those threats to acceptable levels. In the UK and India, the firm has the policy of rotating engagement partners after a period of seven years with an objective of safeguarding them from familiarity threat to independence. However, this is not a mandatory provision in the USA. Furthermore, in India, there is a policy for peer review of select significant engagements which are not present in other two countries. So, in terms of relevant ethical requirements, Indian policies are more comprehensive than its foreign counterparts.

Policies with respect to accepting and continuing an audit engagement are almost same in all three countries. The firm needs to evaluate the ability of their engagement team and client profile and decide whether the engagement can be performed with necessary competence and independence. In USA, in addition to the client profile, nature, scope and limitations of service in the client company are also evaluated. The firm should continuously evaluate the changing structure of the company in case of continuing engagement. If the necessary conditions for

the engagement are not met, the firm should withdraw from engagement subject to the applicable regulation.

In all three countries, persons with necessary competence and ethical orientation are recruited keeping in mind the quality criteria of the firm. They are appraised on a regular interval and their remuneration is decided based on such appraisal. If the recruit does not comply with quality control policies, the firm may take disciplinary actions against him. In the USA, in addition to these policies, firms also take additional measures for maintaining sufficient skills of the employees. For that reason, they organise professional development programmes at regular intervals.

In each of these countries, the engagement performance involves briefing the engagement team about their objective and engagement procedure, supervising and reviewing their work, taking consultation on difficult and contentious matters, EQCR, dealing with difference of opinion and the engagement documentation. However, there are some differences in these three countries. For example, in the USA, the EQCR report is published after publication of the engagement report, while in the UK and India, they are published before publication of the engagement report. Firms in the USA recognised the need for additional policies for maintaining independence of the EQC reviewer which is not mandatory in other two countries. Firms in the USA also have policies for documenting differences of opinion. But firms in the UK and India do not have such policies. In the UK, the engagement documents are required to be retained for a period of five years. In India, firms maintain the engagement documentation for a period of 10 years. In the USA, there is no particular time limit for this purpose.

In the USA, the UK and India, firms monitor design and implementation of quality control policies, the impact of recent regulation in quality control policies, inspection of engagement procedure, allegations against the firm, deficiencies in the quality control framework and corrective actions and disciplinary actions for the breach of quality control policies. The person within the firm responsible for monitoring activities should communicate the results of monitoring to the engagement team. In the USA, the monitoring procedure follows a risk-based approach, while in the UK and India, it follows a cyclical approach. In the USA, the person responsible for monitoring does not come under the purview of the quality control framework. But, this is not so in other two countries.

Compliance with ethical requirements, engagement reports and the monitoring process should be documented as per the quality control policies in all three countries. These documentations are mainly used for monitoring purposes. But in the USA, it is also used for peer review of the audit engagement.

### *Comparative Analysis of Quality Control Procedure at the Engagement Level*

In the previous segment, quality control policies and procedures adopted at the firm level in all three countries under consideration have been comparatively analysed. Now, quality control policies at a particular engagement framed in the light of applicable auditing standard are compared (Table 2).

In the USA, the governing auditing standard used to monitor quality control policies at the engagement level is known as SAS-122 (AICPA, 2012a). In the UK, it is termed as ISA-220 (FRC, 2009). In India, SA-220 is used for this purpose. The leadership responsibilities with respect to maintaining the quality of a particular engagement involve recognising the need for quality and performing quality audit to set an example for other engagement team members. In all three countries, this procedure is followed.

The quality control procedures with respect to complying with relevant ethical requirements are same in all three countries. The engagement partner should be alert about non-compliance with ethical requirements within the engagement team. They should identify the possible threats to independence and apply appropriate safeguards to reduce those threats to an acceptable level. If threats cannot be reduced, they should withdraw from that engagement.

The engagement partner in each of these countries should accept or continue with an engagement only if he is able to conduct the engagement with necessary competence and independence. If there is any reason for withdrawal from the

**Table 2.** Comparative Analysis of Quality Control Procedure at the Engagement Level

Parameters	The USA	The UK	India
<b>Leadership Responsibilities for Quality on Audits</b>	<ul style="list-style-type: none"> <li>As per SAS-122 (AICPA, 2012a), an engagement partner assumes the leadership responsibilities of the engagement team.</li> <li>Naturally, they need to recognise the need for quality audit and set an example of quality for other teams.</li> </ul>	<ul style="list-style-type: none"> <li>Just like the USA, in the UK as well the engagement partner identifies the necessity of quality in an audit engagement and set a model for other members by maintaining the quality.</li> </ul>	<ul style="list-style-type: none"> <li>Diagnosing the need for quality audit and maintaining the quality to make an instance for other team members are the two important leadership responsibilities of engagement partners in India</li> </ul>
<b>Relevant Ethical Requirements</b>	<ul style="list-style-type: none"> <li>An engagement partner should always be alert of non-compliance with ethical requirements.</li> <li>They should gather information on threats to independence and provide it to the accounting firm.</li> </ul>	<ul style="list-style-type: none"> <li>As per ISA (FRC, 2009)-220, engagement partners must always be prepared of non-compliance with ethical needs in an engagement. They collect information on threats and pass it on to the accounting firm.</li> </ul>	<ul style="list-style-type: none"> <li>The relevant ethical requirements of an audit team in India are almost similar to that of other two countries.</li> </ul>

(Table 2 Continued)

(Table 2 Continued)

Parameters	The USA	The UK	India
	<ul style="list-style-type: none"> <li>They also apply appropriate safeguards to reduce those threats to an acceptable level. However, if threats cannot be reduced, they should withdraw from the engagement.</li> </ul>	<ul style="list-style-type: none"> <li>They should withdraw from an engagement, if even after applying safeguards threats cannot be reduced to an acceptable level.</li> </ul>	<ul style="list-style-type: none"> <li>Awareness about the breach of ethical requirements, collection of threat-related information and communication of the same to the accounting firm, application of safeguard to reduce threats to an acceptable level are the major ethical requirements here.</li> <li>However, just like other two countries, statutory auditors should withdraw from the engagement if threats cannot be reduced to an acceptable level.</li> </ul>
<b>Acceptance and Continuance of Client Relationship and Audit Engagements</b>	<ul style="list-style-type: none"> <li>The audit team may accept or continue an engagement only if the engagement allows them to conduct audit with necessary competence and independence.</li> <li>However, if there is any reason for withdrawal, it should be promptly notified to the accounting firm.</li> </ul>	<ul style="list-style-type: none"> <li>In case of initial or continuing audit, the acceptance should be made only if the required criteria for competence and independence are met.</li> <li>But if due to some reason, the team wants to pull out from the engagement, it should be duly notified to the firm.</li> </ul>	<ul style="list-style-type: none"> <li>As per SA-220, the auditor accepts or continues with those engagements which allow them to conduct the audit with necessary competence and independence.</li> <li>If there is a reason for departure from the engagement, it should be duly informed to the accounting firm.</li> </ul>

(Table 2 Continued)

(Table 2 Continued)

Parameters	The USA	The UK	India
<b>Assignment of Engagement Teams</b>	<ul style="list-style-type: none"> <li>The engagement partner should ensure necessary competence and independence of all the members in the engagement team.</li> </ul>	<ul style="list-style-type: none"> <li>Certifying necessary capability and autonomy of all the members in the engagement team is one of important responsibilities of the engagement partner.</li> </ul>	<ul style="list-style-type: none"> <li>The engagement partner should assign the team in such a way that every member has necessary competence and independence.</li> </ul>
<b>Engagement Performance</b>	<ul style="list-style-type: none"> <li>Direction, performance, supervision and review of audit procedure are the main engagement performances.</li> <li>The engagement partner should review select engagements with critical judgements.</li> <li>Consultation is to be taken on difficult matters.</li> <li>Any argument with the reviewer or consultant should be resolved promptly.</li> </ul>	<ul style="list-style-type: none"> <li>The engagement partner should direct and supervise the engagement performance.</li> <li>They should also inspect select engagements with complex judgements.</li> <li>They should consult external third parties or members of the accounting firm on critical issues. However, any difference of opinion between them should be resolved promptly.</li> </ul>	<ul style="list-style-type: none"> <li>In addition to mandating the direction, performance, administration and evaluation of the audit procedure, consultation on difficult matters and resolving dispute with the consultant, SA-220 requires the engagement partner to decide the need for EQCR for select engagements.</li> </ul>
<b>Monitoring</b>	<ul style="list-style-type: none"> <li>The engagement partner considers the deficiencies in the engagement performance based on monitoring result of the firm and evaluates its effect on a particular engagement.</li> </ul>	<ul style="list-style-type: none"> <li>The firm monitors each engagement based on ISQC (FRC, 2010)-I and identifies the deficiencies in the quality control framework, that the engagement partner considers and judge its effect of the engagement.</li> </ul>	<ul style="list-style-type: none"> <li>Just like other two countries, in India too, the engagement partner checks the deficiencies in the quality control framework and examines its impact on the current engagement</li> </ul>

(Table 2 Continued)

(Table 2 Continued)

Parameters	The USA	The UK	India
<b>Documentation of the System of Quality Control</b>	<ul style="list-style-type: none"> <li>Several matters need to be documented by the engagement partner such as compliance with relevant ethical requirements, foundation for accepting or continuing an engagement and decision on consultation.</li> </ul>	<ul style="list-style-type: none"> <li>Observance with relevant ethical requirements, basis for accepting or continuing an engagement, decision on consultation, the process of EQCR, declaration from the EQC reviewer about the date of report and unresolved matters of the EQC reviewer are documented as per ISA (FRC, 2009)-220</li> </ul>	<ul style="list-style-type: none"> <li>The documentation requirement by an engagement partner as per SA-220 is same as that of the UK.</li> </ul>

**Source:** Comparable Sections of SAS-122 (AICPA, 2012a), ISA-220 (FRC, 2009) and SA-220.

engagement, it should be promptly notified to the firm. Furthermore, the engagement partner should ensure that all the members of the engagement team including auditor's expert have necessary competence and independence to perform the quality audit.

In all three countries under consideration, the engagement partner plays an important role with respect to the engagement performance. They communicate necessary ethical requirements and the audit procedure to other engagement team members and supervise their performance. They also take consultation on difficult and contentious matters from other members of the firm or any outside authorities. They also take important steps in resolving differences of opinion with the EQC reviewer. In the USA and the UK, the engagement partner selects few engagements with critical judgements and reviews them before publication of the engagement report. In India, the engagement partner decides the need for EQCR for select engagements.

In the USA, the UK and India, the provisions relating to monitoring are the same. The engagement partner does not take part in the monitoring process. Rather, he considers the result of monitoring process and identifies the deficiencies in the quality control framework of the firm. He also measures the impact of such deficiencies on his engagement.

The engagement partner in all three countries is required to document compliance with relevant ethical requirements, basis for accepting or continuing with an audit engagement and decision taken based on consultation. In addition to that, in the UK and India, the engagement partner is required to document process of



EQCR, declaration from the EQC reviewer and unresolved matters in the review process.

## Conclusions

Since the beginning of this current century, especially after revelation of several massive accounting scandals, accounting regulators across the Globe have strongly felt for the existence of a systematic quality control framework in all the professional accounting firms providing mainly audit services to the corporate enterprises. International regulatory bodies like IFAC have taken a pioneering role in this respect and issued ISQC-1 to govern quality control policies and procedures of accounting firms. Later, national regulators in most of the developed and developing countries have adopted this standard. A comparative analysis among quality control policies in three prominent countries, the USA, the UK and India shows that they are almost the same. However, in terms of relevant ethical requirements and engagement documentation, quality control policies of the UK and India are more stringent than that of the USA. Quality control policies adopted by the engagement partner to maintain the quality of a particular engagement have also seen major advancement, when developed and developing countries started adopting ISAs issued by IAASB under IFAC. ISAs have been referred by the regulators in the USA, the UK and India while formulating their auditing standards. As a resultant effect, provisions of the standard especially meant for governing the quality of a particular engagement in all three countries are almost similar. However, quality control policies in the UK and India with respect to EQCR and the engagement documentation are more stringent than that of other two countries. Barring these minor differences, the quality control framework in all three countries is almost similar and is at par with the international requirements.

**Editor Note:** This is a brief on Quality standards for audit firms and audits which may be of interest to our readers

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