

STATEMENT 3.211
AUDITING GUIDELINE
QUALITY CONTROL

Introduction

1. Paragraph 4 of Statement of Auditing Standard 3.101 "Audit Approach" states that the auditor 'should adequately plan, control and record his work'. The Auditing Guideline 3.210 "Planning, controlling and recording" gives guidance on how that paragraph may be applied and describes the quality control measures necessary in respect of individual audits. However, paragraph 17 of that guideline states that the auditor 'should also consider how the overall quality of the work carried out within the firm can best be monitored and maintained'.
2. This guideline is therefore intended to provide guidance on those quality control procedures that relate to audit practices in general and is drafted so as to apply to firms of all sizes.
3. The principles of quality control are applicable not only to auditing but to the entire range of professional services provided by a firm. For the purposes of this Guideline, however, quality control is the means by which a firm obtains reasonable assurance that its expression of audit opinions always reflects observance of approved Auditing Standards, any statutory or contractual requirements and any professional standards set by the firm itself. Quality control should also promote observance of the personal standards relevant to the work of an auditor, which are described in the ethical statements published by the Hong Kong Society of Accountants.

Procedures

4. The objectives of quality control procedures are the same for all firms. At the beginning of subsequent paragraphs, therefore, a specific objective of quality control, which is considered to be universally applicable, is highlighted. This is followed by a brief description of the procedures that firms may adopt to meet this objective. For each firm the exact nature and extent of the procedures needed will depend on its size and the nature of its practice, the number of its offices and its organisation.
5. **Each firm should establish procedures appropriate to its circumstances and communicate them to all partners and relevant staff, and to other professionals employed by the firm in the course of its audit practice.** This should normally involve putting them in writing, although it is recognised that oral communication may be effective in the small, closely controlled firm. The following paragraphs describe the objectives and the basic procedures applicable to each firm.

Acceptance of appointment and reappointment as auditor

6. **Each firm should ensure that, in making a decision to accept appointment or reappointment as auditor, consideration is given to the firm's own independence and its ability to provide an adequate service to the client.** The firm should determine what information is needed to evaluate prospective clients, and whether the decision to accept appointment or reappointment should be taken by the firm as a whole or by a designated partner or committee.

Professional ethics

7. **There should be procedures within the firm to ensure that all partners and professional staff adhere to the principles of independence, objectivity, integrity and confidentiality, set out in the ethical statements issued by the Hong Kong Society of Accountants.** These procedures include providing guidance, particularly to those staff who are not members of the Society, resolving questions on the above principles, and monitoring compliance with them. For larger firms in particular, it may be appropriate that the task of guiding staff in these areas should be allotted to a particular partner. If, for example, the firm does not permit staff to hold shares in client companies, the designated partner should ensure that staff are aware of such a policy.

Skills and competence

8. **The firm's partners and staff should have attained the skills and competence required to fulfil their responsibilities.** This involves procedures relating to:
 - (a) recruitment (paragraph 9);
 - (b) technical training and updating (paragraph 10);
 - (c) on-the-job training and professional development (paragraph 11).

Staff should be informed of the firm's procedures, for example by means of manuals and standardised documentation or programmes. The firm's procedures should be regularly updated.

9. **Effective recruitment of personnel with suitable qualifications, including any necessary expertise in specialised areas and industries, involves both planning for staffing needs and determining criteria for recruitment based on such needs.** Such criteria should be designed to ensure that cost considerations do not deter the firm from recruitment of audit staff with the experience and ability to exercise the appropriate judgement.

10. All partners and staff should be required to keep themselves technically up-to-date on matters that are relevant to their work. The firm should assist them to meet this requirement. Such assistance should include:
 - (a) circulating digests or full texts, where appropriate, of professional publications and relevant legislation;
 - (b) maintaining a technical library;
 - (c) issuing technical circulars and memoranda on professional developments as they affect the firm;
 - (d) encouraging attendance at professional courses;
 - (e) maintaining appropriate training arrangements.

The methods of implementing the above procedures may vary according to the size of the firm. For example, a smaller firm can ensure that it has copies of essential reference books relevant to its practice where a fuller technical library would be impracticable. Also manuals and standardised documentation do not need to be produced internally by the smaller firm but can be acquired from various professional bodies and commercial sources; and co-operative arrangements with other firms can help meet training needs.

11. The Auditing Guideline 3.210 "Planning, controlling and recording" relates staff assignment to the needs of the particular audit visit but, in the context of quality control generally, a further factor in staff assignment should be the opportunity for on-the-job training and professional development. This should provide staff with exposure to different types of audit and with the opportunity to work with more experienced members of the team who should be made responsible for the supervision and review of the work of junior staff. It is important that the performance of staff on audits is evaluated and that the results of these assessments are communicated to the staff concerned, giving the opportunity for staff to respond to comments made, and for any action to be agreed.

Consultation

12. **There should be procedures for consultation.** These will include a structured approach to audit file review (so that the review procedures recommended in the Auditing Guideline 3.210 "Planning, controlling and recording" are effective for every audit); reference of technical problems to designated specialists within the firm; and procedures for resolving matters of judgement. For smaller firms, and particularly for sole practitioners, consultation at the appropriate professional level within the firm may not be possible. Consultation with another practitioner may be a suitable alternative,

providing confidentiality of the client's affairs is maintained. To provide opportunities for such consultations, practitioners in smaller firms will find it helpful to develop links with other practitioners or with relevant professional associations.

Monitoring the firm's procedures

13. **The firm should monitor the effectiveness of its application of the quality control procedures outlined above.** This monitoring process should provide reasonable assurance that measures to maintain the professional standards of the firm are being properly and effectively carried out.
14. This process should include periodic review of a sample of the firm's audit files by independent reviewers from within the firm. The firm should:
 - (a) have procedures for selection of particular audits for review, and for the frequency, timing, nature and extent of reviews;
 - (b) set the levels of competence for the partners and staff who are to participate in review activities;
 - (c) establish procedures to resolve disagreements which may arise between the reviewers and audit staff.

It should be borne in mind that the purpose of this independent review is to provide an assessment of the overall standards of the firm, and so it is quite separate from the purpose of the earlier review procedures referred to in paragraph 12, which are carried out by members of the audit team to provide control over the individual audit.

15. Where, in the smaller firm, independent review within the firm is not possible, attendance at professional courses and communication with other practitioners can provide the opportunity of comparison with the standards of others, thereby identifying potential problem areas.
16. Whatever action is taken by the firm to monitor the effectiveness of quality control procedures, the firm should ensure that any recommendations for improvement that arise are implemented.