

## External audit – quality control

Quality control procedures are essential to ensure that audit risk is reduced to an acceptable level and that the performance of the audit team is appropriate.

An audit engagement could go wrong due to client based problems or problems with the audit team. Each firm should adopt quality control procedures to ensure that the quality of its work is appropriate. There are six key aspects of quality control for audits: leadership, ethical requirements, acceptance, resources and expertise, performance and monitoring.

In this module, we will examine these six aspects of quality control and the benefits of quality control procedures.

### Leadership

The leaders of the audit firm (its partners) should ensure that they provide leadership on quality control. They should seek to ensure that quality is fundamental to the performance of audits.

### Ethics

Ethics are crucial for auditors. They underpin public trust in the way in which audits are carried out and the role and function of auditors. The audit firm must implement procedures and policies to ensure that it complies with ethical requirements.

### Worked example 1: Ethics

Take a look at this worked example.

Gimli is a large audit firm. A number of Gimli's clients are large plcs, with widely dispersed share ownerships. The partners of Gimli are keen to ensure that the ethical aspects of their quality control procedures are appropriate.

What action might the partners of Gimli take to ensure that their firm fulfils its obligations in relation to this aspect of quality control?

**Click to display/hide the solution.**

Circulate a memorandum to all staff at the beginning of the year requesting that they disclose any shareholdings that they may have in any of the firm's clients. The memorandum should also require staff to disclose any relevant shareholdings if they arise during the year. New staff at Gimli should also be asked to make the disclosure.

## Acceptance

Quality control procedures should ensure that the audit firm only accepts clients that are appropriate. Procedures will need to address issues, including:

- the results of a risk analysis of the prospective client and of audit risk
- any ethical issues that may prevent acceptance
- resources and expertise to carry out the audit
- any legal requirements associated with the appointment.

## Resources and expertise

Quality control procedures should address the need to employ and retain staff with the capability and competence to perform audits. Policies should consider areas such as: recruitment, performance evaluation, capability, competence, promotion and remuneration.

### Worked example 2: Resources and expertise

Take a look at this worked example.

Gimli is a large audit firm. The partners of Gimli are keen to ensure that they allocate appropriate staff resources to each audit assignment.

What factors would need to be considered by the partners of Gimli to ensure that staff allocations are appropriate?

**Click to display/hide the solution.**

Factors to consider include:

an understanding and experience of similar audit assignments  
technical knowledge  
industry and client knowledge  
an ability to apply sound professional judgement  
an understanding of the legal and professional requirements  
an understanding of the audit firm's quality control procedures.

## Engagement performance

Quality control procedures in respect of the performance of an audit should consider direction, supervision, review and consultation.

A partner will be responsible for the direction of the audit. Much of this responsibility will be delegated to the most senior member of the audit team on site at the client's premises. Good direction will ensure that the audit team understands the client's business, knows what work it needs to do, any risks that are relevant to the audit and how to respond to any problems that may arise during the audit.

Again, a partner is responsible for supervision but, in practice, this will be delegated to the most senior member of the audit team on site. Quality control procedures should provide for good

supervision that monitors the performance of the audit and addresses any issues that may arise in a timely and professional manner.

Quality control procedures should ensure that work performed during the audit should be reviewed by the relevant partner, or by a senior manager at the audit firm. Adequate documentation of audit work is essential to enable this review to be carried out. The purpose of the review is to ensure that the work done is in line with the overall audit strategy.

Where difficult issues arise, quality control procedures must provide for audit staff to consult properly on the matter with the relevant partner or senior manager.

### **Monitoring**

Audit firms should have policies in place to ensure that the quality control procedures are adequate and relevant, operating effectively and complied with. The partners of the firm should receive at least an annual report of the results of this monitoring.

### **Practice example**

The worked examples show how to address a question on aspects of quality control. You can now have a go at putting together an answer yourself, in your own time, for the example below.

You are a newly appointed auditor at Gimli, a large audit firm. You are about to start work on your first audit assignment. What would you expect the role of your senior manager to be in respect of the supervision and review of your work?

**Click to display/hide the solution.**

Supervision: inform you of your duties and responsibilities, explain the nature of the client's business, explain the objectives of the audit assignment, highlight possible accounting and auditing problems.

Review: working papers of suitable standard, work conducted in accordance with audit programmes, conclusions valid, matters for further investigation highlighted.