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Auditors have suffered their fair share of criticism as a result of the financial crisis. So how can they re-instill confidence in a profession whose reputation has been tainted by a series of errors and scandal? There are several drivers, but delivering quality is the only way to ensure continuity and growth.



quantity

Quality is a measure of excellence: freedom from defects and deficiencies and the offering of products or services that satisfy customers' and/or clients' needs the most. Whilst the quality of products can be measured against prescribed standards and specifications, measuring and comparing the quality of services is more challenging. The measurement and comparison of the quality of professional services is even more difficult as it involves professional judgment of practitioners.

Why quality is important for professional firms

Quality is the only driver to success and for earning stakeholder confidence in the professional services and the related deliverables. Stakeholders rely on financial reports when making decisions regarding the future of their businesses: it is therefore essential that they are

comfortable with respect to the reliability of such reports. So how can professional firms ensure that they offer a quality deliverables and services that will leave them on top of their profession?



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Quality systems for professional firms

International professional firms invest a lot of money to develop and modernize policies, procedures, manuals, tools and methodologies that govern the services they provide to their clients and to ensure adherence to international as well as national professional, ethical and regulatory standards and requirements.

International Standard on Quality Control 1 (ISQC1) requires professional firms to establish and maintain a system of quality control to provide them with reasonable assurance that:

- the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and that
- reports issued by the firm or the engagement partners are appropriate in the circumstances.

The system of quality control of a professional firm should also document and communicate policies and procedures that address:

- leadership responsibilities for quality within the firm;
- relevant ethical requirements;
- acceptance and continuance of client relationships and specific engagements;
- human resources;
- engagement performance;
- monitoring.

Adherence to standards, policies and procedures requires monitoring to ensure the consistent provision to clients of quality services and deliverables that are in compliance with professional and ethical standards and regulations.

Based on the above, each professional firm should take immediate action to develop its own System of Quality Control that complies with the requirements of ISQC1 as well as with its own Policies Manual. The System has to be approved by the Board of Directors of the Firm and circulated to all its partners and resources for immediate implementation.

Monitoring quality by professional firms

Monitoring quality should be a priority for each professional firm to ensure quality and continuity and for addressing risk and maintaining growth, as well as keeping a high professional reputation.

The adoption of an Engagement Quality Control Review (EQCR) policy for each report to be issued by the professional firm and its partners is a key aspect of ensuring quality of deliverables to clients that meets the highest professional standards. As such, all professional reports and deliverables are subject to review by another competent experienced partner/manager who is completely independent from the engagement.

Another internal tool for monitoring quality in large multinational companies is a type of Practice Review whereby every office is subject to a practice review for each of its service lines, to be carried out in accordance with the company's policies manual, either through an internal review utilizing its own resources and monitored by the head firm or through an external review to be carried out by resources from other member firms within the international group to ensure and monitor compliance with the system of quality, professional standards and regulations on a timely basis. Accordingly, all service lines, functions of the system of the quality controls, partners, directors and principals are selected for practice review over a three-year rotation plan.

In addition to the engagement quality control review and the practice review procedures that are carried out by the professional firm itself, professional firms are sometimes subject to other external reviews by professional buddies known as peer reviews, whereby a professional firm is assigned by the relevant professional body to review the working files and the system of quality control of another professional firm. Moreover, regulators in certain countries also have a system and mechanisms to perform reviews on licensed professional firms to ensure adherence to international and national standards, and to national regulations such as the reviews conducted by the Saudi Organization for Certified Public Accountants (SOCPA) in KSA, the reviews carried out by Securities and Exchange Commission SEC and the Public Company Oversight Board (PACOB) in the USA, the Audit Inspection Unit (AIU) of the Professional Oversight Board (POB) in the UK, and the Certified Public Accounting and Auditing Oversight Board in Japan.

For example, the Certified Public Accounting and Auditing Oversight Board in Japan CPAAOB published on July 5, 2006, its report on "Japan's Oversight Board Faults Operations, Controls at Big Four Firms."

The Board stated in its report that it had found problems with management oversight, quality control and independence at Big Four affiliates that are responsible for auditing 80 percent of the listed firms in Japan. The oversight report did not cite specific examples of problem audits, but news agencies stated that the finding could and would diminish overall confidence in the accounts of Japanese companies.

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Why monitoring quality is important

Failure to adhere to professional standards and comply with a company's own policies and procedures and the system of quality could result in serious consequences to itself and/or its partners: other than face the risk of losing its business and its clients, a company could become subject to disciplinary actions by professional buddies and regulators that impair its reputation.

Each professional firm has no choice but to maintain effective and efficient monitoring functions and tools and should recourse such function with highly qualified and technically competent partners and managers to ensure quality of deliverables and full adherence to their systems of quality control, professional standards and regulatory requirements.

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