

## Significant Audit Quality Indicators, Policies and Procedures

### Quality Control Requirements

[Statement on Quality Control Standards \(SQCS\) No. 8, A Firm's System of Quality Control \(Redrafted\) \(AICPA, Professional Standards, QC sec. 10\)](#), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The objective of the firm's system of quality control is to provide it with reasonable assurance that 1) the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and 2) reports issued by the firm are appropriate in the circumstances. Firms accomplish this objective by establishing and maintaining policies and procedures addressing each of the following elements:

- Leadership responsibilities for quality within the firm (the tone at the top)
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

The Auditing Standards Board has issued an exposure draft, [Proposed Quality Management Standards](#), that includes three interrelated standards that address the way CPA firms manage quality for their accounting and auditing practices. The standards offer a new proactive, risk-based approach to effective quality management systems within CPA firms, which will improve the scalability of the standards and promote a system tailored to the firm and its engagements. The proposed standards would supersede SQCS No. 8.

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The AICPA Practice Monitoring of the Future task force conducted a survey of all firms subject to a peer review of its system of quality control (system review) to determine the most important steps within each element of its system of quality control that they believe have a positive impact on audit quality. The most significant audit quality indicators (AQI) are as follows:

Quality Control Element	Audit Quality Indicators, Policies and Procedures
Leadership	The firm has assigned: a) ultimate responsibility and accountability for the system of quality management to the firm's managing partner/CEO, b) operational responsibility of the system of quality management to individuals that are competent to serve in these roles, and c) operational responsibility for specific aspects of the system of quality management to individuals that are competent to serve in these roles.
Acceptance and Continuance	The firm performs a risk assessment on all engagements during the acceptance and continuance process.  For initial engagements, especially those in industries for which the engagement team or firm has little or no experience, the firm considers the following prior to accepting the engagement:

	<ul style="list-style-type: none"> <li>• Whether the engagement team has or will acquire the necessary knowledge and resources to perform the engagement.</li> <li>• Whether staff with the appropriate experience will be hired.</li> <li>• Whether the engagement team has access to a resource for consultations that may need to take place during the performance of the engagement.</li> <li>• Whether the engagement team has completed the necessary discussions with the predecessor audits along with completed an adequate review of the prior year working papers.</li> <li>• Whether the engagement team has contacted the predecessor auditor to determine whether management employs questionable accounting policies.</li> </ul>
	The firm uses current and industry specific quality control materials.
	For continuing clients, the firm determines whether the engagement team has the expertise to continue serving the client.
Human Resources	The firm has established reasonable deadlines that will allow engagements to be completed in accordance with professional standards and the client has agreed to those deadlines.
Engagement Performance	The engagement partner or other senior members of the engagement team review significant working papers in accordance with professional standards and firm policy.
	The engagement team performs risk assessment procedures to gain an understanding of the entity, including its internal control.
	Senior members of the engagement team with a strong understanding of the client, including the engagement partner, determine the overall audit strategy.
	An experienced member of the engagement team performs a majority of the planning.
	The engagement partner and other senior members of the engagement team spend adequate time during the various stages of the engagement performance.
	For engagements in which an engagement quality review (EQR) is required, the firm has assigned a qualified reviewer, who is not part of the engagement team, during the planning stages.
Monitoring	The firm monitors CPE for all professional staff.

**Resources**

- Policies and Procedures Practice Aid – As part of the AICPA’s [Enhancing Audit Quality](#) initiative, e-versions of the AICPA Audit and Accounting Practice Aid [Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice](#) were developed. The Practice Aid is intended to help practitioners better develop the policies and procedures that comprise a firm’s system of quality control, as required by QC section 10, *A Firm’s System of Quality Control* (AICPA, Professional Standards). Chapter 2 provides guidance on policies and procedures.

- Peer Review Checklists – The Peer Review Board developed [quality control design and compliance checklists](#) to assist peer reviewers in evaluating a firm’s system of quality control.
- CPE – AICPA course, [A Firm’s System of Quality Control](#), provides a comprehensive review of a firm’s system of quality control and offers tips to help improve audit quality and increase profitability.