

Nkonki Quality Control



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Editors Note

The aim of this newsletter is create awareness around the following processes to ensure proper implementation of the Nkonki Quality Control Manual (QCM):

1. Leadership
2. Ethics
3. Acceptance and continuance of client relationships
4. Human Resources
5. Engagement performance
6. Monitoring

It also highlights the role of the Operational Manager Quality Control (OMQC), which is myself (Mitesh Patel).

I urge all the Nkonki staff to take note of the importance of this newsletter and begin implementation of the Nkonki Quality Control Manual as part your daily lives at Nkonki



Quality Control Manual Summary

The following basic steps need to be followed for proper implementation of the Quality Control Manual (QCM):

1. Leadership

- a. Chief Executive Officer (CEO) takes ultimate responsibility for the system of quality control - sign an annual declaration to evidence this.
- b. Assign an Operational Manager Quality Control (OMQC). Assess the appropriateness of the experience and ability of the OMQC annually (sign off on the criteria form).
- c. Attend training on the implementation of the QCM, read and gain an understanding of the QCM and related policies and procedures and sign a declaration in this regard. An annual newsletter will also be sent out in this regard.
- d. Engagement partner communicates quality control requirements and importance thereof for each engagement at the beginning of and through all stages of engagements.
- e. Good work and adherence to quality control policies and procedures are rewarded annually.

2. Ethics

- a. The engagement partner signs off on the audit file confirming that all members of the team are independent.
- b. All new staff members are issued with a copy of the Code of Ethics and sign a declaration that they have read and understood the requirements thereof.
- c. Engagement partners annually provide the firm with a list of relevant client information on audit and review clients that includes, amongst other things, the scope of services rendered. Additionally, a list of prohibited investments is drawn up and circulated between all staff. Staff sign an annual declaration indicating that they have reviewed both lists and declared all relationships / involvement / investments.
- d. Independence declarations are signed by all staff annually and per each engagement.
- e. Maintain a register of gifts and hospitality provided to or received to from clients. Review the register prior to assigning staff to engagements to ensure that no threats to independence occur. Staff members sign a declaration of compliance with the principles of the Code of Ethics

to confirm that they have declared all gifts and hospitality received or provided to clients.

- f. Engagement partners considers and document all threats to independence and/or other fundamental principles included in the Code of Ethics, apply safeguards of the firm against all threats / remove relevant staff from engagement team and report all threats to the OMQC.
- g. A rotation plan is maintained and implemented for listed clients.
- h. All employees (audit and non-audit) sign a declaration undertaking to report to the OMQC knowledge or suspicions of money laundering.
- i. All employees (audit and non-audit) sign a declaration undertaking to report to the engagement partner all actual / potential Reportable Irregularities identified.
- j. The engagement partner informs the staff of confidentiality requirements on each engagement. Additionally, staff should sign annual confidentiality declarations.

3. Acceptance and continuance of client relationships:

- a. Acceptance of new clients: Information on potential clients is obtained by the engagement partner and all new clients accepted are approved by the CEO. The engagement partner signs off indicating that the appropriate procedures have been followed and conclusions reached. The engagement partner ensures that the most recent decision is documented and is appropriate. If client is rejected, appropriate procedures followed to support decision are documented.
- b. Continuance of existing client relationships: Where matters arose in previous audits these will be considered annually before continuing with the assignment, documented and signed off by the engagement partner before the new year's audit commences and communicated to the OMQC. For listed and public interest clients, regular risk assessment meetings are held to assess continuance decisions and minutes are maintained in this regard.
- c. The engagement partner documents any information obtained during the audit that would have caused the firm to decline the client if the information was available sooner; communicates this to the OMQC and follows and documents the necessary steps to withdraw (if necessary) as confirmed by the OMQC.

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4. Human Resources

- a. For performance evaluation, compensation and promotion procedures: **make personnel aware** of the firm's **expectations** regarding **performance and ethical principles**, provide personnel with **evaluation of, and counselling on performance, progress and career development** and help personnel understand that **advancement to positions of greater responsibility depends**, amongst other things, upon **performance quality and adherence to ethical principles, policies and procedures**, and that **failure to comply may result in disciplinary action**.
- b. **Develop competence and capabilities of all staff** through a combination of professional education, CPD, work experience, coaching by more experienced staff and on-the-job coaching.
- c. Based on past performance, the **capabilities and competence of staff is assessed before they are assigned to each engagement and the engagement partner signs off** on the audit file as proof that these requirements have been met.
- d. Before commencing an **engagement, an engagement partner is appointed** by the firm and key members of client management are informed of his/her role and identity, the **CEO ensures** that the **engagement partner has the appropriate capabilities, competence, authority and time** to perform the role. His/her **responsibilities are clearly defined and communicated** to the engagement team.
- e. The **role of the engagement partner and each team member is clearly communicated at the planning meeting (minutes kept)**.

5. Engagement performance

- a. **Use the standard audit approach** for all audit engagements. This deals, as a minimum, with the following:
 - i. **How engagement teams are briefed on the engagement** to obtain an understanding of the objectives of their work.
 - ii. **Processes for complying with applicable engagement standards**.
 - iii. **Processes of engagement supervision, staff training and coaching**.
 - iv. **Methods of reviewing the work performed, the significant judgments made and the form of report being issued**.
 - v. **Appropriate documentation** of the work performed and of the timing and extent of the review.
 - vi. **Processes to keep all policies and procedures current**.

- b. The engagement partner informs the members of the audit **engagement team** of the following (minutes kept):
 - i. Their **responsibilities, including** maintaining the principles of **objectivity, professional scepticism, ethics and due care**;
 - ii. The **nature of the entity's business**;
 - iii. **Risk-related issues**;
 - iv. **Problems** that may arise; and
 - v. The **detailed approach** to be followed.
- c. **Senior / manager / Technical advisor (if necessary) briefs less experienced members** of the engagement team to **ensure that they clearly understand** the objectives of work assigned to them.
- d. At a **pre-planning level and through ongoing monitoring**, the **capabilities and competence** of individual members are **considered**.
- e. **Staff members are instructed to identify matters for consultation or consideration by more experienced engagement team members during the engagement (planning meeting – minutes kept)**.
- f. The **review structures** on each engagement are **formalised during the planning stage** and placed in the planning section of the audit file. All work performed is **reviewed by a more experienced team member (planning meeting – minutes kept)**.
- g. The **engagement partner conducts reviews throughout the audit, especially covering areas of judgment, difficult or contentious matters, significant risks and other important areas**. The engagement partner **evidences his / her reviews by signing the audit file and documenting review considerations on file. All changes to the approach are clearly documented on file (planning meeting – minutes kept)**.
- h. **Before the auditor's report is issued, the engagement partner, through review of audit documentation and discussions with the engagement team, satisfies him- / herself that sufficient appropriate audit evidence has been obtained to support the conclusions reached**.
 - i. **Terms of reference** are issued to **consultants** detailing the issues on which consultation was sought. The **nature and scope of consultations** are documented (whether sufficient resources are **available to enable appropriate consultation** to take place, issue, basis for decision taken, results and implementation thereof). **Conclusions resulting from consultations are documented** in the relevant section of the audit file. The **engagement partner signs off and ensures that it is implemented**. The requirements



- of ISA 620 (Using the Work of an Expert) are adhered to when consulting.
- j. The **engagement partner informs members of the engagement team that they may bring matters involving differences of opinion to his / her attention** or to the **OMQC** as appropriate without fear of reprisal (**planning meeting – minutes kept**).
- k. **Differences of opinion are documented** in the relevant section at the earliest possible stage. If necessary, **consult** with other partners in the firm, or IRBA or SAICA to resolve such matters. **Conclusions reached are documented and implemented (engagement partner and Engagement Quality Control Reviewer sign off as proof)**. Where consensus cannot be reached the **engagement partner takes responsibility** for making the final decision. A more senior partner, if available, **must be consulted on the matter**.
- l. The firm conducts quality control reviews for **all audits of listed entities and other entities meeting the specified criteria**. For audits of listed

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entities and other audits required by the firm, the engagement partner ensures that an Engagement Quality Control Reviewer has been appointed, discusses significant matters arising during the audit engagement with the Engagement Quality Control Reviewer and does not issue the auditor's report until the completion of the engagement quality control review.

- m. Criteria for eligibility as an Engagement Quality Control Reviewer is determined and documented by the CEO and OMQC. A service level agreement is entered into between the firm and the Engagement Quality Control Reviewer. The Engagement Quality Control Reviewer is required to sign a confidentiality undertaking.
- n. The Engagement Quality Control Reviewer documents all considerations necessary to ensure compliance with the quality control standards.
- o. The Engagement Quality Control Reviewer may be consulted throughout the engagement and

significant matters should be promptly brought to his / her attention, but need not compromise the Engagement Quality Control Reviewer's eligibility to perform the role.

- p. A report is issued by the Engagement Quality Control Reviewer indicating whether the audit opinion is appropriate.
- q. Where the Engagement Quality Control Reviewer and the engagement partner disagree on matters, the report is not issued until the firm's procedures for resolving differences of opinion have been followed.
- r. Where the reviewer's objectivity and independence is impaired, the engagement partner arranges a suitable replacement and documents considerations.
- s. Assembly of final engagement files is completed on a timely basis after the engagement reports have been finalised. Where no time limits are prescribed in law or regulation, the firm must establish such time limits. Any departures from these time limits are approved by the OMQC.
- t. The engagement partner must ensure the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation (Retained for a sufficient period - for audit engagements no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report).

6. Monitoring

- a. The OMQC analyses new developments, compliance with independence policies and procedures, CPD / training and acceptance & continuance consideration on specific clients - a compliance report is completed in this regard.
- b. The OMQC will:
 - i. Determine whether corrective actions and improvements to the system are needed, including feedback regarding the firm's policies and procedures relating to education and training.
 - ii. Communicate to appropriate firm personnel weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
 - iii. Ensure that the necessary modifications are promptly made to the quality control policies and procedures.
- c. The quality control system is evaluated by the OMQC on an ongoing basis through periodic inspections of random, completed engagements. Engagements selected for an engagement quality control review will include at least one engagement for each engagement partner over an inspection cycle of one year (maximum cycle is three years). The OMQC will, on occasion, select

engagements without prior notification to the engagement team.

- d. The OMQC will evaluate any deficiencies noted and determine whether they are 'once-off' by nature or whether they require prompt corrective action.
- e. The OMQC will communicate to engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and make recommendations for appropriate remedial action. Recommendations may include any of the following:
 - i. Taking appropriate remedial action in relation to an individual engagement or member of personnel.
 - ii. Communicating findings to those responsible for training and professional development.
 - iii. Changing quality control policies and procedures.
 - iv. Disciplinary action against those who fail to comply with the firm's quality control policies and procedures - especially those who do so repeatedly.
- f. The CEO will determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements where (Legal advice will be obtained from an appropriate legal forum if considered necessary):
 - i. A threat of actual / threatened litigation exists between the firm and an audit client or
 - ii. The results of monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement.
- g. The OMQC will, at least annually, present a report containing the results of the monitoring process to engagement partners, including the firm's CEO.
- h. When reporting on deficiencies to individuals other than the relevant engagement partners, identification of the specific engagements will not be made unless such identification is necessary for the proper discharge of the responsibilities of individuals other than the engagement partners.
 - i. Suitably qualified external persons or other external firms may be contracted to perform engagement inspections or other monitoring procedures. Working papers and documentation covering the monitoring process will remain in the possession of the firm.
- j. Complaints and allegations are investigated and documented by a partner with sufficient and appropriate experience and authority but who was not involved in the engagement.
- k. Important documentation pertaining to Quality Control is retained for a period of time required by law (five years).