Quality Assurance in Auditing: A Recent Development in Professional Practice

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QUALITY ASSURANCE IN AUDITING:
A RECENT DEVELOPMENT IN PROFESSIONAL PRACTICE

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Introduction

Quality assurance auditing is a managerial technology that is applicable to the accounting profession and several other professions including the medical profession. Quality assurance is thus a concept that has a very wide application (Charlton, 2005). Quality Assurance has been a matter of serious concern since the World War II when it was first to tighten control on industry output, particularly in ammunition industry. The emphasis on the Quality Assurance system then was on inspection and testing, and reliance was placed on catching the defects at the end of the process. The quality Assurance approach then was geared towards proper outcome.

In 1987, respected industry representatives from around the globe assisted the International Standard Organization 9000 quality assurance series of quality system standards. As the demand for better and more reliable products and service increased, the quality systems evolved to become international standard organization 9001 Quality Assurance Standard. Emphasis then shifted from catching defects at the end of the process to prevention rather than cure, an is now applicable to all industries, including service industries. The ability of firm to service in today’s competitive world largely depends on its ability to provide quality assurance products, and/or services. Thus the concept of Quality Assurance today has a wider application than it was initially intended. Different industries, fields and disciplines are now embracing and applying the concept in a modified fashion.
Quality Assurance auditing is closely identified with the older managerial approached such as Total Quality Management (TQM) and the conformity of Quality Assurance System of organization with International Standards (Feigenbaum, 1983; Perigord, 1990; TQM International, 1992). Quality Assurance auditing therefore has closed evolutionary links to quality enhancement strategies, based upon creating a ‘culture’ centered on ‘quality’, which usually means recognizing production around reliable processes and systems of checking and feedback. These ideas are usually credited to Edward Deming and also credited with generating Japanese economic miracle of the post 1945 era-but they enjoyed a belated revival among late 20th century UK public sector where they are still regarded as excitingly radical and promoted with messianic zeal. It is only recently that the concept and application of Quality Assurance Auditing began to receive attention in Nigerian and in the developing nations. This followed the wave of global events that accompanied the collapse of giant industries such as ENRON and WORLDCOM in the US, and the massive bank failures events raise a lot of questions on the quality of the attestation (audit) report issued by the accounting practitioners.

In an effort to regain public confidence and to rise the status of the profession, several professional accounting bodies in both developed and developing nations have intensified efforts towards monitoring the accounting practitioner via standards of quality control and quality review. This is commonly referred to as auditing the auditors.

Quality assurance audit is performed in order to ensure that the systems are in place and being followed religiously to provide good quality to the customer. It also highlights the need for any improvement in the systems in order to consistently deliver good quality products or
services. The audits are also performed to make sure that the organization is following the legal and regulatory requirements. Some audits are conducted by internal auditors whereas some are performed by external ones.

Various quality assurance audit types are:

**System Audit**
The organization has various system which when put together make a whole system. A system audit is an audit performed on any of these systems. Itself is wrong, the output is likely to be wrong.

**Product or Service Audit**
The product or service audit is performed on the product or service to find out if the product or service meets the requirements or the customers and the standards set by the organization. There are various stages at which this can be performed. It could be during the process of product manufacturing, after the product has been manufactured, or even after the product is packed and ready to be delivered to the customer. The nonconformities are equivalent to customer complaints.

**Department Audit**
As the name suggests, the department audit is performed with a focus on a given department. The scope of the audit covers all the activities performed, all the procedures followed and all the systems available in the department. This audit highlights the areas for improvement in that department.

**Process Audit**
Various processes are critical for the smooth running of an organization. Actually speaking, all activities from order inquiry to delivery of products follow a defined process in any organization. Hence, an audit of such processes is performed to
identify the areas for improvement. Process audit also covers the audit of some special manufacturing processes that are critical for the quality of the end product. These processes may be in-house or at the suppliers place, the one to whom that process has been outsourced to.

**Conformance Audit**
The external parties normally perform this QA audit. It is a form of third party audit where the auditing party evaluates if the organization does meet the requirements as are supposed to by the systems. This could also be for any kind of system certifications that organizations wish to apply for. The certificate-awarding agency also conducts the conformance audit periodically to make sure that the organization is meeting the certification requirements.

**Compliance Audit**
Compliance audit is performed by regulatory agencies to confirm if the organization is meeting the legal and regulatory requirements. In case of any non-conformity, a re-audit may be required. The purpose of the re-audit is to ensure the effectiveness of the corrective actions taken.

The output of the audit is an audit report that is circulated to all the concerned people. The purpose of any type of QA audit is not to find mistakes, but to find the areas for improvements. If it is taken by the auditor and the audited party in this spirit, the organization can be sure that it is on the path to improvement and will be able to consistently meet all customers, system, legal or regulatory requirements.

**Conceptual Overview of Quality Assurance in Auditing**
In 1992, the Cadbury report was commissioned in the US following the several major contemporary financial scandals in which audit mechanisms had failed and the regulatory methods of corporations were judged to have been deficient
(Cadbury Report, 1992; Power, 1997). The Cadbury report concluded that the cause of vulnerability to financial mismanagement was inadequate auditing. It however recommended that the best way to prevent such scandals was to have more auditing a new kind of auditing. The new kind of auditing is to ensure that external auditors concentrate on ‘assuring’ that an adequate auditing system is instituted.

This necessitated a critical shift in auditing away from traditional yearend auditing of outcomes designed to ensure that the books balanced and reflect a ‘true and fair’ view of the financial position of the organization to auditing the processes which constitute the system (Power, 1997; Charlton, 1998). As Feigenbaum (1983) put it “The quality-style audit assesses the effectiveness of implementation of the quality system and determines the degree to which systems objectives are being achieve. The audit is system rather than product oriented.

In order to carry out this task the practicing Accountant is expected to demonstrate professionalism. This implies that if the practicing Accountant undertakes audit assignment, it should provide assurance to all concerned that he/she has successfully planned his/her work keeping in mind the objectively, and approach, and has conducted the audit from beginning to the end by following the generally accepted auditing procedure or standards. In other works, the auditor should manage audit assignments with the required skill and due professional care and caution. This part of the auditors function is referred by some of the international accounting bodies as audit management. Its features in auditing practice usually signify.

- The need for audit planning
- The institution of quality control procedure
- The standardization of auditing techniques and documentation.
The strengthening of review procedures for work at every phase of the audit work.

Internal Audit Quality Assurance Review

Protiviti’s (2009) Internal Audit Quality Assurance professionals help organizations evaluate conformance with The International Standards for the Professional Practice of Internal Auditing (Standards) and identify opportunities to improve internal audit performance and services.

The IIA Standards require an external review of the internal audit activity every five years. These reviews are designed to assess the activity’s conformance with the standards and its effectiveness in providing assurance/consulting services to the organization’s board of directors, senior executives and other interested parties.

An external Quality Assessment Review can facilitate the transformation of an internal audit department into a more strategic business partner and value-added activity. The process can identify improvement opportunities and provide counsel to the chief audit executive and staff for improving their performance and service, as well as promoting the image and credibility of the internal audit activity. With more than 175 professionals accredited in Quality Assessment and Validation, Protiviti is well positioned to evaluate an organization’s conformance with The IIA Standard and suggest leading internal audit solutions to enhance the quality and effectiveness of internal audit.

Objectives of Quality Assurance in Auditing

Over the years, the accounting profession in both developed and developing nations has continued to stress self-regulation through the established professional bodies. It is these professional bodies that have continued to develop and enforce quality assurance standards in auditing. The objectives of these standards are:

- To ensure that auditing practice is profitable.
➢ To ensure that the services rendered to the client are both qualitative and cost effective.
➢ To ensure that any liability or penal action due to negligence or professional misconduct is avoided.
➢ To ensure that the professional services are in tandem with current economic development.

Quality Assurance Audit Models

The AICPA Quality Assurance Audit Model

In 1978, the American Institute of Certified Public Accountants (AICPA) established the Quality control standards committee, which was dissolved in 1983. The responsibility of the committee was however shifted to the Auditing Standards Board. Before its dissolution, the committee identified nine elements of quality control in its statements on Quality control standard No 1 (SQCS No.1). these are:

1. independence,
2. Assigning personnel to engagements,
3. Consultation,
4. Supervision,
5. Hiring,
6. Professional development,
7. Advancement,
8. Acceptance and continuance of clients, and Inspection. AICPA finally reviewed and reduced the elements to five.

AICPA uses two methods of self-regulation Quality control and peer or quality review. All firms are expected to have quality control policies and procedures that address each of the five elements of quality control adopted by AICPA as follows:
i. Independence, integrity and objectives- which involve establishing policies to provide reasonable assurance that all staff are independent of attested clients to the extent required by the AICPA code of professional conduct. This can be achieved by requiring all staff members to identify attest clients in which they own securities.

ii. Personnel Management- which involves establishing personnel to engagements, and professional development. A staff member could be designated to assign personnel to engagements using engagement needs and staff career development as criteria for assignments.

iii. Acceptance and continuance for clients- which involves establishing policies to preclude accepting or continuing serves for managements that lack integrity.

iv. Engagement performance – which involves establishing policies for planning, performing, supervising, documenting, and communication results of each engagement. This can be achieved by assigning staff to review planning memos, working papers and reports, and designating a consulting partner for each organization the firm serves.

v. Monitoring – which involves establishing policies for monitoring compliance with firm’s quality control policies and procedures by using an assessment director to document quality control compliance.

The peer review teams report their findings to the reviewed firm. Deficiencies in quality control policies or in compliance with section membership requirements can, depending on the gravity of the offence, result in fines, suspension, expulsion or other sanctions against the reviewed member firm.
The ICAI Model

In order to promote self-regulation, the Institute of Chartered Accountants of India (ICAI) issued a Statement of Auditing Practice (SAP) 17 Quality Control Audit work w.e.f 01/04/1999 for the purpose of providing guidance to its members. The requirements are made up of quality control policies and procedures at the audit firm level and at the individual audit engagement level.

Quality control policies and procedure at the audit firm level comprise of the following:

i. Professional requirements – which requires personnel in the firm to adhere to the principles of independence, integrity, objectivity, confidential and professional behaviour.

ii. Skill and competence – which require an audit firm to be staffed by personnel who have attained and maintain the technical standard and professional competence required to enable them discharge their duties with utmost care.

iii. Assignment – this requires audit work to be assigned to personnel who have the degree of technical training and proficiency required in the circumstance.

iv. Delegation – which required sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality.

v. Consultation – this requires consultation within or outside the firm with those who have appropriate expertise.

vi. Acceptance and retention of clients – this requires an evaluation of prospective clients, putting into consideration the firm’s independence and ability to serve the client properly.
vii. Monitoring – this requires the continuous monitoring of the adequacy and operational effectiveness of quality control policies and procedures.

viii. Standardization of document such as the use of audit programme, flow charting techniques, etc. preparation of guidelines on sampling techniques, observation of physical stock taking and use of internal control questionnaires, etc. Quality control policies and procedures at the individual audit engagement level comprise the following.

ix. Professional competence and delegation – these requires the assessment of the professional competence of the audit staff in relation the audit engagement.

x. Direction – this involves informing assistants of their responsibilities and the objectives of the procedures they are to perform.

xi. Supervision – Personnel involve in supervisory function are expected to monitor the progress of the audit to consider whether assistants have the competence and skills required to carry out the assigned task; whether they understand the audit directions; and whether the work is carried out in accordance with the overall audit plan and programme.

xii. Review – This requires the review or the work performed by each assistant by the senior (s) to consider whether.

- The work performed in accordance with audit programme.
- The work is performed and the results obtained have been adequately documented.
- All significant audit matters have been resolved or reflected in the audit reports.

- The objectives of the audit procedures have been achieved, and
- The conclusions expressed are consistent with the results of the work performed and support the audit opinion.
Summary
a) The advantage of Quality assurance over the traditional approach of Inspection and Testing.
b) The effect of Quality Assurance on Quality system standard
c) The impact of Quality Assurance product and services on the survival firms.

Conclusions
The global trend in the business world is the struggle toward ensuring transparency and accountability. This has manifested in the current concept of corporate governance and good business practices. In the wake of this development, companies expect their auditors to provide good quality and value added service and thus make their own contribution to the corporate governance. Some professional accounting bodies in the developed nations have taken up the challenge. Professional accounting bodies in Nigeria should be proactive in the struggle to establish and enforce high quality auditing standards.

Recommendations
The following recommendations are hereby proffered:

a) A steering committee comprising individuals of high integrity and reputation should be set up and charged with the responsibility of developing quality control standards quite separate from the generally accepted auditing procedure already in existence
b) A Quality Assurance Auditing Standard Board should develop general but comprehensive standards to cove the procedures to be followed by firms at the engagement level. These standards should be used to evaluate firms compliance wit quality assurance procedure.
References


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http://www.totalqualityassuranceserices.com/wp.conf