

EUROSAI

Seminar on Quality Control

Hungarian experiences in Implementing IFAC standards on Audit Quality

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Hungarian Chamber of Auditors

- 75th and 10th years anniversary in 2007
- 6000 registered members (3600 in practice)
- Nearly 2000 companies
- Full membership in IFAC and FEE

International Federation of Accountants (IFAC)

- 155 members from 118 countries
- 2.5 million accountants in public practice, industry, commerce, government, academe
- Mission: to strengthen the worldwide accountancy profession, to contribute to the development of strong international economies
- Main activity: standard settings

Specialization and convergence

- **New structure of IFAC standards**
- **Clarity project**
- **IFAC standards in public sector**
- **Cooperation memorandum with INTOSAI**



International standards in Hungary

- Nationalized international standards of IFAC (audit, review, other assurance and related services, quality control + Code of Ethics) are used in Hungary
- Continuous update
- Continuous training

Standards on Quality Control

- **For firms**
 - International Standard on Quality Control (ISQC 1)
- **For audit engagements**
 - Quality Control for audits of historical financial information (ISA 220)

ISQC 1

The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

Content of ISQC 1.

- **Main elements are:**
 - **Leadership responsibilities for the quality within the firm**
 - **Ethical requirements**
 - **Acceptance and continuance of client relationship and specific engagements**
 - **Humans resources**
 - **Monitoring**
 - **Documentation**

Leadership responsibilities for quality within the firm

- **Main messages:**
 - **Ultimate responsible: CEO or managing board**
 - **Commercial consideration doesn't override the quality**

Ethical requirements

- **Starting point: IFAC Code of Ethics**
- **Main principles:**
 - Integrity
 - Objectivity,
 - Professional competence and due care,
 - Confidentiality,
 - Professional behaviour
- **Concept of independence and safeguards**

Acceptance and continuance of the engagements

- **Consideration about the client**
 - before acceptance
 - Professional integrity of the client
 - Consideration during continuance
 - Significant matters arised
- **Consideration about the audit firm**
 - Experience,
 - Capacity
 - Potential conflict of interest

Human resources

- Recruitment
 - Performance valuation,
 - Compensation
 - Estimation of professional needs
 - Training
- engagement partner's responsibility
for each engagement

Engagement performance

- **Guidance for the consistent performance**
- **Training**
- **Supervision**
- **Review of the work**
- **Consultation**
- **Difference of opinion**
- **Engagement quality control**

Monitoring

- Ongoing evaluation of the firm system
- Periodic inspection of completed engagements
- Monitoring in Hungary = the external quality control system of the Chamber

Documentation

- **Everything should be documented**
- **Undocumented = non-performed**
- **Evidence = written documentation**

Implementation of ISQC in Hungary

- Each audit firm and sole practitioner should have own internal quality control system (regulation) in Hungary from January 1, 2007.
- The basis is ISQC 1 trained during the obligatory CPD program
- Sample regulations (guidance) are prepared by the Chamber
 - General guidance for small firms,
 - Guidance for small firms who work with assistants,
 - Guidance for sole practitioners, who don't have any assistant,
- Sample regulation should be tailored by the firms

ISA 220

- The engagement team should implement quality control procedures that are applicable to the individual audit engagement.
- The engagement partner is responsible for the overall quality of the audit engagement.
- Responsibility include ethical requirements (integrity, objectivity, professional competences and due care, confidentiality and professional behavior)
- Any conflict of interest should be documented and the threat should be eliminated.
- Special attention to the listed companies: obligatory second partner's review before the issuance of the report + partners' rotation

External quality control in Hungary

- External quality control system from 2002
- Basis : EU recommendation of quality assurance for the statutory audit in the EU
- System managed by the Chamber
- Quality Control Committee with 7 people
- Quality control regulations (available in English as well)

External quality control in Hungary

- **System: monitored peer-review**
 - Peers are: practitioners
 - Monitoring function by the Chamber
- **Frequency: 5 yrs in general, 3 yrs for public interest entities.**
- **Subject of the review: auditor and audit firms**
 - Selection of completed engagements (compliance with the professional standards)
- **Review is performed by standard program.**

External quality control in Hungary

- **Results:**
 - Meets the requirements,
 - Meets but need further development
 - Failed
- **Sanctions:**
 - Written warning
 - Obligation to attend training
 - Disciplinary procedure (removal from the register)

Experiences and the future

- **Some difficulties at the introduction of the external quality control system**
- **First to teach not to reprimand**
- **Consideration of new IFAC standards**
- **Some changes due to the new EU Directive.**
- **Main challenge: ultimate responsibility of Public Oversight**

More information

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Thank you for your attention!