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INTERNATIONAL STANDARD ON QUALITY CONTROL 1
QUALITY CONTROL FOR AUDIT, ASSURANCE AND RELATED SERVICES
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This International Standard on Quality Control (ISQC) applies to a firm's system of quality control for its practices in the areas of audit, assurance and related services.

This ISQC contains basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISQC including explanatory and other material contained in the ISQC, not just that text which is black lettered.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISQC. Where no PSP is added, the ISQC is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Quality Control (ISQC) is to establish standards and provide guidance on a firm's system of quality control for its practices in the areas of audit, assurance and related services. Standards addressing quality control for specific types of engagement are set out in other pronouncements of the International Auditing and Assurance Standards Board (IAASB). ISA 220 "Quality Control for Audit Engagements," for example addresses quality control for audit engagements.
2. **The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with applicable professional standards and regulatory requirements and that the practitioner's reports issued by the firm are appropriate in the circumstances.**
3. A system of quality control consists of:
 - (a) policies and procedures designed to provide the firm with reasonable assurance that the firm and its personnel comply with applicable professional standards and regulatory requirements and that the practitioner's reports issued by the firm are appropriate in the circumstances; and
 - (b) monitoring the relevance and adequacy of those policies and procedures and their application and effectiveness in practice.
4. The requirements of this ISQC apply to all firms; however, it is likely that firms will develop differing policies and procedures to satisfy these requirements. The nature, timing and extent of those policies and procedures will depend on many factors, including the size and operating characteristics of the firm. Quality control policies and procedures need not be complex to be effective, particularly for smaller firms.

Definitions

5. In this ISQC, the following terms have the meanings attributed below:
 - (a) "engagement partner" – the partner or other person with sufficient and appropriate experience and authority in the firm who has responsibility for the engagement, its performance and issuing the practitioner's report on the subject matter on behalf of the firm;
 - (b) "engagement team" – the individuals involved in performing an engagement, including any experts employed or engaged by the firm in connection with that engagement;
 - (c) "firm" – a sole practitioner, partnership or corporation of professional accountants;
 - (d) "partner" – any individual with real or apparent authority, whether through agency, office or otherwise, to bind the firm;
 - (e) "professional standards" – IAASB engagement standards and the IFAC Code of Ethics for Professional Accountants;
 - (f) "staff" – individuals involved in performing engagements, including any experts employed or engaged by the firm in connection with that engagement other than engagement partners;
 - (g) "suitably qualified external consultant" – an individual who is entitled to act as an

engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform engagements or an organization that provides review services.

Elements of a system of quality control

6. A firm's system of quality control should include documented policies and procedures addressing each of the following elements:

- (a) Leadership and responsibilities within the firm.**
- (b) Acceptance and continuance of engagements.**
- (c) Independence and objectivity.**
- (d) Resources.**
- (e) Engagement performance.**
- (f) Independent review.**
- (g) Monitoring.**

Leadership and responsibilities within the firm

7. The firm should:

- (a) actively promote a quality-oriented internal culture that recognizes that quality is essential in performing engagements;**
 - (b) appoint a person or persons with sufficient and appropriate experience and the necessary authority to take responsibility for the firm's system of quality control;**
 - (c) develop, document and implement quality control policies and procedures; and**
 - (d) communicate those quality control policies and procedures to all individuals involved in engagements and others within the firm who need to be aware of them.**
8. The internal culture of a firm is influenced by the "tone at the top" of that firm. The active promotion of a quality-oriented internal culture depends on clear and consistent messages from all levels of the firm's management emphasizing the importance of performing work which complies with applicable professional standards. Such messages encourage a culture which recognizes and rewards high quality work.
9. When assigning responsibility for the system of quality control, the firm selects a person or persons with sufficient and appropriate experience and ability and the necessary authority to fulfill the role. Sufficient and appropriate experience and ability enables the person or persons responsible for the system of quality control to identify and understand quality control issues. Necessary authority enables the person or persons to develop and implement appropriate policies and procedures to address those issues.
10. The development of quality control policies and procedures assists the firm by establishing a framework for meeting applicable professional standards. A firm's policies and procedures vary depending on factors such as the size and operating characteristics of the firm and its organization.

11. To assist in effective implementation, the firm communicates quality control policies and procedures to all engagement personnel and others within the firm who need to be aware of them. Such communication includes a description of the quality control policies and procedures and the objectives they are designed to achieve.

Acceptance and continuance of engagements

12. **The firm should establish policies and procedures regarding the acceptance and continuance of specific engagements. The policies and procedures should be designed to provide the firm with reasonable assurance that it undertakes or continues only those engagements where:**

- (a) it can comply with applicable independence requirements;**
- (b) it is competent to perform the engagement; and**
- (c) the risk of associating with a client that lacks integrity is minimized.**

Such policies and procedures should be applied before accepting a new engagement, when deciding whether to accept reappointment to an existing engagement, and when considering further appointment to a new engagement with an existing client.

13. Consideration of whether the firm has the competencies to undertake a new engagement includes reviewing factors relating to the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, for example:

- Knowledge of relevant industries.
- Experience with relevant regulatory or reporting requirements.
- Using the work of an expert.
- Independent review.
- Staffing and logistics issues.
- Estimated work effort.
- The reporting timetable.
- Staff training and recruitment plans.

14. Factors which the firm considers regarding the integrity of the client's principal owners, management and those charged with governance include:

- The identity of those who control the client, its owners, those charged with governance and management (or their equivalents).
- The nature of the client's operations.

Information on these matters is obtained through, for example:

- Discussions with third parties.
- Obtaining written references.
- Background searches of relevant databases.

The firm also considers whether accepting an engagement may give rise to a conflict of

interest with existing clients. Where such a conflict is identified, the firm considers whether it is appropriate to accept the appointment.

15. The decision on whether to continue a client relationship includes consideration of significant matters that have arisen during the current or prior engagement and their implications for the continuance of that relationship.
16. Where the firm has obtained information that would have caused it to decline the appointment had that information been obtained earlier, policies and procedures on the continuance of an engagement encompasses consideration of:
 - (a) professional and legal responsibilities applicable in the circumstances, including whether there is a requirement to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
 - (b) the possibility of withdrawing from the engagement.
17. Policies and procedures on withdrawal from an engagement address issues which may include:
 - Discussion with the appropriate level of management and those charged with governance regarding the withdrawal from the engagement and the reasons for the withdrawal.
 - Consideration of whether there is a professional or legal requirement to report to the person or persons who made the appointment or, in some cases, to regulatory authorities, the withdrawal from the engagement and the reasons for the withdrawal.
 - Consideration of whether it may be in the interests of the person or persons who made the appointment or the intended users of the practitioner's report for the firm to remain in place and consider the impact of the information on the procedures performed by the engagement team and the practitioner's report, or other communication necessary in the circumstances.
18. Ethical requirements on independence, changes in appointment and withdrawal from engagements are set out in the IFAC Code of Ethics for Professional Accountants.

Independence and objectivity

19. **The firm should establish policies and procedures to provide it with reasonable assurance that the firm and its personnel maintain independence in all required circumstances and the firm's personnel maintain objectivity in fulfilling their professional responsibilities.**
20. Such policies and procedures address the independence and objectivity requirements of the IFAC Code of Ethics for Professional Accounts and:
 - (a) the identification of actual, or potential, threats to objectivity and to the independence of the firm, including those arising from:
 - the provision of services by the firm;
 - personal and business financial interests; or
 - personal and business relationships;

- (b) action to be taken if any threats to independence or objectivity are identified;
 - (c) potential safeguards necessary to maintain independence and objectivity, for example the recording of relevant information about client relationships and engagements that require the firm or its personnel to be independent in such a way that it is easily accessible to relevant personnel; and
 - (d) the identification and fulfillment of requirements for additional education on independence and objectivity.
21. **The firm should obtain an annual written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the IFAC Code of Ethics for Professional Accountants.**
22. By obtaining such a confirmation, the firm demonstrates the importance it attaches to independence and makes the issue current and visible for its staff.

Resources

23. **The firm should establish policies and procedures to provide it with reasonable assurance that it has sufficient personnel with the competencies necessary to perform its engagements in accordance with applicable professional standards.**
24. Such policies and procedures address recruitment, evaluation, career development, and the estimation of personnel needs in order to ascertain the number and characteristics of the individuals required for the engagement. The firm's recruitment processes include procedures to help determine whether recruits are individuals of integrity who have the capacity to develop the competencies necessary to perform the firm's work.
25. Competencies are developed through:
- (a) professional education and development;
 - (b) work experience and coaching by other members of the engagement team; and
 - (c) performance evaluation and career advancement.

Professional staff:

- (a) are made aware of the firm's expectations regarding performance;
 - (b) are provided with counseling on performance, progress and career development; and
 - (c) understand that career advancement to positions of greater responsibility depends upon performance quality.
26. The firm assists in the development and maintenance of technical competencies by providing access to relevant information and support services. Firms may use a suitably qualified person or group outside the firm to provide the necessary technical resources.

ASSIGNMENT OF ENGAGEMENT TEAMS

27. **The firm should appoint an engagement partner to each engagement to take responsibility for that engagement on behalf of the firm. It should develop policies and procedures requiring that:**

- (a) **the identity and role of the engagement partner is communicated to those charged with governance and the senior management of the client; and**
 - (b) **the engagement partner has both the necessary competencies and sufficient time to perform the role.**
- 28. The firm should also assign appropriate staff with the necessary competencies to perform engagements in accordance with applicable professional standards.**
- 29. The firm establishes procedures to assess the knowledge, skills and abilities of professional staff. This enables the assignment of professional staff with the necessary competencies to perform engagements in accordance with applicable professional standards. These procedures need not be complex for small firms or offices, where the competencies of professional staff are widely known within the firm.
- 30. The competencies considered when assigning engagement teams include:
 - Understanding of and practical experience with engagements through participation and appropriate training.
 - Understanding of applicable professional standards.
 - Knowledge of specific industries and relevant regulatory requirements.
 - Ability to apply professional judgment.
 - Understanding of the firm's quality control policies and procedures.

Engagement performance

- 31. The firm should establish policies and procedures to provide it with reasonable assurance that engagements are performed in accordance with applicable professional standards. Such policies and procedures should encompass all phases of the design and execution of the engagement.**
- 32. To the extent appropriate, these policies and procedures address:
 - (a) planning;
 - (b) performance;
 - (c) supervision;
 - (d) documentation;
 - (e) review; and
 - (f) reporting.
- 33. It is important that all members of the engagement team understand the objectives of the work they are to perform. Appropriate team-working and training assist less experienced members of the engagement team in clearly understanding the objectives of the work they have been assigned.
- 34. Supervision is closely related to both direction and review and includes:
 - Tracking the progress of the engagement.

- Considering whether the other members of the engagement team have the competencies necessary to perform the work expected of them and sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement.
 - Addressing significant issues raised during the engagement, considering their significance and modifying the planned approach as appropriate.
 - Identifying matters for further consideration during the engagement.
35. Work performed by members of the engagement team is reviewed by more experienced team members or the engagement partner. Reviewers consider whether:
- (a) the work has been performed in accordance with applicable professional standards and, where applicable, in accordance with the work program;
 - (b) the work performed is adequate in light of the results obtained and is appropriately documented;
 - (c) significant matters have been raised for further consideration;
 - (d) appropriate consultations have taken place and the resulting conclusions have been documented;
 - (e) the objectives of the engagement procedures have been achieved; and
 - (f) the conclusions are consistent with the results of the work performed.

CONSULTATION

36. **The firm should establish policies and procedures to provide it with reasonable assurance that:**
- (a) appropriate consultation takes place on difficult or contentious matters;**
 - (b) sufficient resources are available to enable appropriate consultation to take place; and**
 - (c) conclusions resulting from consultations are documented.**
37. Consultation is discussion, at the appropriate professional level, with individuals within the firm or outside of it who have specialized expertise, in order to resolve a difficult or contentious matter.
38. Consultation uses the collective experience and technical expertise of the firm and reduces the risk of occurrence of significant technical errors or errors of judgment. The firm seeks to establish a climate in which consultation is recognized as a strength and encourages partners and staff to consult when they are considering a difficult or contentious matter.
39. Effective consultation requires that those consulted be given all the relevant facts that will enable them to provide informed advice, whether on technical, ethical or other matters. Consultation procedures are designed so that individuals with appropriate knowledge, seniority and experience within the firm are consulted on significant technical, ethical and other matters and that the conclusions resulting from consultations are properly documented.
40. A firm needing to consult externally, for example a small firm without appropriate internal

resources, may take advantage of advisory services provided by other firms, professional and regulatory bodies and commercial organizations. In such circumstances, appropriate arrangements are made to safeguard client confidentiality.

DIFFERENCES OF OPINION

- 41. The firm should establish policies and procedures for dealing with differences of opinion within the engagement team, with those consulted and between the engagement partner and the independent reviewer.**
42. Such procedures encourage identification of issues at an early stage and provide guidelines as to the successive steps to be taken thereafter. When a firm uses an external consultant to conduct an independent review it recognizes that differences of opinion can occur and establishes procedures to resolve such differences, for example by consulting with another practitioner or firm or a professional or regulatory body.

Independent review

- 43. The firm should establish policies and procedures which:**
 - (a) require the performance of an independent review for all audits of financial statements of listed entities;**
 - (b) set out criteria for determining whether an independent review should be performed for other audit, assurance and related services engagements; and**
 - (c) set out:**
 - (i) criteria for the eligibility of independent reviewers;**
 - (ii) the nature, extent and timing of an independent review; and**
 - (iii) documentation requirements for an independent review.**
44. An independent review is an evaluation of:
 - (a) the key judgments made by the engagement team;
 - (b) the conclusions reached in formulating the practitioner's report; and
 - (c) significant matters that have come to the attention of the independent reviewer.

The matters arising from the independent review are resolved by the engagement team to the satisfaction of the independent reviewer before the issuance of the practitioner's report.
45. The independent reviewer's work is designed to provide a basis to conclude that no matters have come to the reviewer's attention that would cause the reviewer to believe that the engagement was not performed in accordance with applicable professional standards.
46. Criteria that a firm considers when determining which engagements other than audits of financial statements of listed entities are to be subject to an independent review include the following:
 - The number and range of stakeholders who may use the subject matter of the practitioner's report to make decisions.
 - The extent to which the subject matter and the practitioner's report are of interest to the

public, or may affect the public's confidence in public institutions or public administration.

- The identification of specific circumstances or risks in an engagement.

CRITERIA FOR THE ELIGIBILITY OF INDEPENDENT REVIEWERS

47. An independent reviewer is a partner, other person in the firm, or suitably qualified external consultant with sufficient and appropriate experience and authority to perform an independent review.
48. The firm's policies and procedures on the eligibility of independent reviewers address:
 - (a) the technical qualifications required to perform the role; and
 - (b) the degree to which the independent reviewer can be involved with the engagement without compromising the role.
49. The firm's policies and procedures on the technical qualifications of independent reviewers address the technical expertise and experience¹ necessary to fulfil the role. The determination of what constitutes sufficient and appropriate technical expertise and experience is tailored to the circumstances of the engagement. Where sole practitioners and small firms identify engagements requiring independent review, a suitably qualified external consultant may be engaged to conduct that review. For an independent review of an audit of financial statements, the consultant is an individual entitled to act as an audit engagement partner. When using an external consultant, appropriate arrangements are made to safeguard client confidentiality.
50. The firm's policies and procedures are designed to maintain the objectivity of the independent reviewer and the reviewer's independence from the engagement team. For example, the independent reviewer does not:
 - (a) participate in the performance of the engagement;
 - (b) make decisions on behalf of the engagement team; or
 - (c) participate in the performance of an audit, assurance or related services engagement involving the same client and with respect to the same subject matter for the preceding period or, in the case of an audit of financial statements of a listed entity, for a period of twenty four months before the start of the period of the current engagement.
51. The independent reviewer may be consulted by the engagement partner during the course of the engagement. Such consultation need not compromise the independent reviewer's eligibility to fulfil the role. Where the volume and nature of the consultation becomes significant, care is taken to maintain the reviewer's objectivity and independence from the engagement team.
52. Where the independent reviewer has undertaken the independent review of a client for several years, the firm recognizes the risk that the reviewer's objectivity may become impaired. The firm's policies provide for the replacement of the independent reviewer where objectivity may be impaired, for this or any other reason.

¹ The firm considers whether specialist knowledge is a requirement for independent reviews of entities in certain industries or for specific issues.

NATURE, EXTENT AND TIMING OF THE INDEPENDENT REVIEW

53. An independent review involves discussion with the engagement partner, a review of the financial statements or other subject matter and, to the extent considered necessary by the independent reviewer, a review of working papers. The extent of the independent review depends on the complexity of the engagement, the risks associated with the engagement and the experience of the engagement team. It does not reduce the responsibilities of the engagement partner. The scope of an independent review includes consideration of the following:
- (a) the independence of the firm and the engagement team;
 - (b) the planning process, including risk assessments and the planned responses to those risks;
 - (c) the key judgments made, particularly in high risk areas;
 - (d) whether appropriate consultation has taken place on difficult or contentious matters;
 - (e) the significance and disposition of misstatements;
 - (f) whether appropriate matters have been considered for reporting to management and those charged with governance; and
 - (g) the appropriateness of the proposed report.
54. The independent reviewer conducts the review in a timely manner to allow for significant matters identified during the review process to be resolved to the reviewer's satisfaction before the issuance of the practitioner's report.
55. Where the independent reviewer makes recommendations which the engagement team does not accept and the matter is not resolved to the reviewer's satisfaction then the practitioner's report is not issued until the matter is resolved by following the firm's procedures for dealing with differences of opinion.

DOCUMENTATION OF THE INDEPENDENT REVIEW

56. Policies and procedures on documentation of the independent review include evidencing that:
- (a) the procedures required by the firm's policies on independent review have been performed;
 - (b) the independent review has been completed before the issue of the practitioner's report; and
 - (c) no matters have come to the attention of the independent reviewer, that have not been satisfactorily resolved, that would cause the independent reviewer to believe that the engagement was not performed in accordance with applicable professional standards.

Monitoring

57. **The firm should establish policies and procedures to provide it with reasonable assurance that the policies and procedures relating to each of the other elements of the system of quality control are relevant, adequate and effectively applied in practice.**
58. Monitoring the firm's system of quality control includes both an ongoing consideration and

evaluation of the elements of the system as set out in this ISQC and the review of a selection of completed engagements.

59. The ongoing consideration and evaluation of the elements of the system of quality control involves analysis and evaluation by competent individuals of:
- (a) independence procedures;
 - (b) professional development and education activities; and
 - (c) client acceptance and continuance decisions.
60. Individual engagements are reviewed by individuals who were not involved in performing either the engagement or, where applicable, the independent review. Small firms and sole practitioners may wish to use the services of a suitably qualified external consultant to carry out the monitoring review. In determining the scope of the monitoring review the firm may, where appropriate, have regard to the scope or conclusions of an external monitoring program.
61. The purpose of monitoring compliance with quality control policies and procedures for completed engagements is to provide an evaluation of:
- (a) adherence to applicable professional standards; and
 - (b) whether the firm's quality control policies and procedures have been appropriately applied.
62. The firm communicates the results of the monitoring procedures to relevant personnel. The firm evaluates the impact of deficiencies noted and determines whether they are isolated instances or systemic or repetitive deficiencies. Deficiencies in individual engagements do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with applicable professional standards.
63. Systemic or repetitive deficiencies identified in the system of quality control as a result of the monitoring procedures result in recommendations for appropriate courses of action. These actions may include the communication of the findings to those responsible for training and professional development, changes to the quality control policies and procedures, or disciplinary action against those who repeatedly fail to comply with the standards of the firm. Specific deficiencies identified in the system of quality control, along with suggested remedial actions where appropriate, are communicated to the engagement partner and other members of the engagement team. In particular, where deficiencies are identified in that part of the firm's system of quality control comprising policies and procedures regarding independence and objectivity, the firm communicates these findings to appropriate firm personnel promptly, and takes immediate steps to remedy the situation.

Documentation of compliance with quality control policies and procedures

64. **The firm should establish policies and procedures requiring appropriate documentation to demonstrate compliance with each element of its system of quality control.**
65. Documentation is retained for a period of time sufficient to enable those performing monitoring procedures to evaluate the extent of the firm's compliance with its system of

quality control.

66. Factors to consider when determining the form and content of such documentation include:

- The size of a firm.
- The number of offices.
- The degree of authority afforded to both personnel and offices.
- The nature and complexity of the firm's practice and organization.

Effective Date

67. This ISQC is effective as of ...

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