

NOVEMBER 2002 DRAFT
QUALITY CONTROL FOR AUDIT ENGAGEMENTS
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International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the 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 ISA including explanatory and other material contained in the ISA, 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 ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. Under International Standard on Quality Control 1 (ISQC 1), a firm of accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with applicable professional standards. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on specific quality control procedures regarding audit engagements.
- 2. The engagement team should implement quality control procedures that are applicable to the individual audit.**

Definitions

3. The following terms defined in ISQC 1 are used in this ISA with the same meanings:
 - (a) firm;
 - (b) partner;
 - (c) professional standards; and
 - (d) suitably qualified external consultant.

In this ISA, 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 auditor’s report on behalf of the firm;
- (b) “engagement team” – the individuals involved in performing an audit, including any experts employed or engaged by the firm in connection with that audit; and
- (c) “staff” – individuals involved in performing audits, including any experts employed or engaged by the firm in connection with that engagement other than engagement partners.

Leadership and responsibilities

- 4. The engagement partner should actively promote a quality-oriented internal culture in the context of each specific engagement to which the engagement partner is assigned.**
5. The engagement partner participates in an effective and timely manner in:
 - (a) the work of the engagement team; and
 - (b) performance evaluation.

This involvement assists the engagement partner in providing a clear and consistent message to the team emphasizing the importance of performing work that complies with applicable professional standards.

Acceptance and continuance of audit engagements

- 6. The engagement partner should determine that appropriate procedures on the acceptance and continuance of audit engagements are followed for those audit engagements for which the engagement partner is responsible.**

7. The engagement partner, together with others within the firm as appropriate, undertakes and documents procedures addressing:
 - (a) competence to undertake the engagement;
 - (b) independence and objectivity;
 - (c) integrity of the principal owners, management and those charged with governance of the entity;
 - (d) ethical requirements in relation to changes in appointment;
 - (e) conflicts with existing clients; and
 - (f) risks associated with the client or engagement.
8. 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.

Independence and objectivity

9. The engagement partner should:

- (a) provide the firm with relevant information about client engagements that require the firm or its personnel to be independent;**
- (b) collect information regarding the full scope of services provided to the client in order to obtain reasonable assurance that there are no conflicts with professional requirements;**
- (c) obtain and consider the most recent information disseminated by the firm on the effectiveness of its system of quality control; and**
- (d) determine that a current written acknowledgement of independence exists from each member of the engagement team.**

The engagement partner is not personally responsible for the independence and objectivity of the firm as a whole.

10. Where the most recent information disseminated by the firm on the effectiveness of its system of quality control indicates that nothing has come to the attention of the reviewer to indicate that there are deficiencies in the system of quality control, the engagement partner is entitled to place reliance on that part of the system comprising policies and procedures regarding independence and objectivity. If the most recent information indicates that deficiencies have been found in either the design or operation of the policies and procedures regarding independence and objectivity, the engagement partner:
 - (a) ascertains whether the specific deficiencies noted by the monitoring review relate to the audit engagement in question; and
 - (b) considers whether the measures adopted by the firm to rectify the situation are sufficient in the context of that engagement.
11. Where the measures adopted by the firm to rectify the situation are not sufficient, the engagement partner discusses this with others in the firm to determine whether it is appropriate to continue with the engagement in question.

Assignment of engagement teams

- 12. The engagement partner should determine that the engagement team has the necessary competencies to perform the audit engagement in accordance with applicable professional standards.**
13. The competencies of the engagement team considered by the engagement partner 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

- 14. The engagement partner is responsible for the direction of the audit engagement and its performance in compliance with applicable professional standards. This responsibility encompasses:**
- (a) planning;**
 - (b) performance;**
 - (c) supervision;**
 - (d) documentation;**
 - (e) review; and**
 - (f) reporting.**
15. Compliance with applicable professional standards includes:
- The application of an appropriate level of professional skepticism by the engagement team in the performance of the audit engagement.
 - The delegation of work in a manner that provides reasonable assurance that such work is performed with due care¹ by staff having the degree of professional competence required in the circumstances.
 - Appropriate communication both within the engagement team and with the entity subject to the audit engagement.
16. Direction of the engagement team involves team members being informed of their responsibilities, the nature of the entity's business, risk related issues, problems that may arise and the detailed approach to the performance of the engagement. Members of the engagement team are encouraged to raise questions they may have with more experienced team members.
17. ISA 300 "Planning" sets out the auditor's responsibility to plan the audit work so that the audit will be performed in an effective manner. Planning includes obtaining an

¹ The fundamental principle of due care is set out in the IFAC Code of Ethics for Professional Accountants.

understanding of the business and performing a risk assessment. The engagement partner is responsible for the timely approval of the audit plan and the detailed approach to the performance of the engagement. The plan includes an outline of supervision and review responsibilities, including those of the engagement partner, and other quality control procedures specific to the audit engagement.

18. Supervision is closely related to both direction and review and includes:
 - Tracking the progress of the audit.
 - 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 audit.
 - Addressing significant issues raised during the audit, considering their significance and modifying the planned approach as appropriate.
 - Identifying matters for further consideration during the audit.
19. 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 audit procedures have been achieved; and
 - (f) the conclusions are consistent with the results of the work performed.
20. Before the auditor's report is issued, the engagement partner performs an overall review of working papers. The review is adequate to satisfy the engagement partner that the working papers contain sufficient appropriate audit evidence to support the conclusions reached and for the auditor's report to be issued. Although the review may not cover all working papers, it covers:
 - (a) all critical areas of judgment, especially relating to difficult or contentious matters identified during the course of the engagement;
 - (b) audit evidence relating to significant risks; and
 - (c) other areas which the engagement partner considers important.

The engagement partner documents the extent and timing of the review.

21. Where there is a change of engagement partner during the course of the current audit, the new engagement partner undertakes a review of the work performed to the date of the change. The review procedures are sufficient to satisfy the new engagement partner that the

work is planned to be in accordance with applicable professional standards.

22. Where more than one partner (other than an independent reviewer) is involved in the conduct of an audit engagement, it is important that the responsibilities of the respective partners are clearly defined and understood by both the engagement team and the entity subject to the audit.

CONSULTATION

23. **The engagement partner should facilitate appropriate consultation on difficult or contentious matters both within the engagement team and between the engagement team and others within or outside the firm. The conclusions resulting from such consultation should be documented by the appropriate members of the engagement team.**
24. 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. Where appropriate, the engagement team consult individuals with appropriate knowledge, seniority and experience within or outside the firm.

Independent review

25. **In circumstances where the firm's criteria require that an independent review be performed for an audit engagement, the engagement partner should communicate with the independent reviewer to co-ordinate their work.**
26. **For an audit engagement where, at the start of the engagement, the firm's criteria do not require the performance of an independent review, the engagement partner should be alert for changes in circumstances during the engagement that would require the performance of an independent review.**

Monitoring

27. In accordance with ISQC 1, the firm's system of quality control includes monitoring of quality control policies and procedures. Deficiencies in the firm's system of quality control do not, in and of themselves, indicate that a particular engagement was not performed in accordance with applicable professional standards.

Effective Date

28. This ISA is effective for audits of financial statements for periods ending on or after ...