

**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.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

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 professional 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, regulatory and legal requirements and that the auditor's reports issued by the firm are appropriate in the circumstances. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on specific quality control procedures for audit engagements. This ISA is intended to be read in conjunction with Parts A and B of the IFAC *Code of Ethics for Professional Accountants* (the Code).
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: engagement partner, engagement team, firm, listed entity, partner, professional standards, staff and suitably qualified external consultant.

## Compliance with Ethical Requirements

4. **The engagement partner should emphasize to the engagement team the importance of compliance with relevant ethical requirements including the fundamental principles of professional ethics.**
5. Relevant ethical requirements relating to audit engagements ordinarily comprise Parts A and B of the Code together with applicable national requirements. The Code establishes the fundamental principles of professional ethics and adopts a principles based approach, providing a conceptual framework for applying those principles. The conceptual framework requires professional accountants to identify, evaluate and address threats to those principles. The fundamental principles are:
  - (a) integrity;
  - (b) objectivity;
  - (c) professional competence and due care;
  - (d) confidentiality; and
  - (e) professional behavior.
6. The Code identifies the main categories of threat to the fundamental principles and general and specific safeguards against those threats.

## Leadership and Responsibilities

7. **The engagement partner should promote a quality-oriented internal culture on each audit engagement to which that engagement partner is assigned.**
8. The engagement partner provides a clear and consistent message to the engagement team

throughout all stages of the audit emphasizing:

- (a) the importance of:
  - (i) performing work which complies with applicable professional standards, regulatory and legal requirements;
  - (ii) compliance with the firm's quality control policies and procedures as applicable; and
  - (iii) issuing auditor's reports that are appropriate in the circumstances; and
- (b) the fact that quality is essential.

### **Acceptance and Continuance of Client Relationships and Specific Audit Engagements**

9. **The engagement partner should be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed for those audit engagements for which that engagement partner is responsible and should document conclusions reached in this regard.**
10. The engagement partner, together with others within the firm as appropriate, documents consideration of:
  - (a) the competence of the firm and the engagement team to undertake the engagement;
  - (b) the independence of both the firm and the engagement team;
  - (c) the integrity of the principal owners, management and those charged with governance of the entity;
  - (d) the firm's compliance with ethical requirements in relation to changes in appointment including communication with the existing or previous auditor;
  - (e) conflicts, if any, with existing clients;
  - (f) the adequacy of the reporting deadline; and
  - (g) all identified significant risks associated with the client or engagement.

Where issues have been identified, the manner in which the matter has been resolved is documented.

11. The decision on whether to continue a client relationship includes consideration of significant matters that have arisen during the current or prior audit and their implications for the continuance of that relationship. The engagement partner provides information on a timely basis to appropriate firm personnel relevant to a decision to discontinue a client relationship.

### **Independence**

12. **The engagement partner should:**
  - (a) **provide the firm with relevant information about client engagements in respect of which the firm and its personnel are required to be independent;**
  - (b) **obtain sufficient information regarding the scope of services provided to the client**

- by the firm in order to evaluate whether there are conflicts with professional requirements;
- (c) obtain the most recent information circulated by the firm on the results of the monitoring process on that part of the firm's system of quality control relating to independence and consider its impact on the audit engagement;
  - (d) determine that independence requirements have been communicated to the engagement team including, where appropriate, those in other jurisdictions;
  - (e) document conclusions regarding independence and the basis for those conclusions; and
  - (f) notify the firm in a timely manner of breaches of independence policies and procedures of which the engagement partner becomes aware.
13. Where the most recent information circulated by the firm on the effectiveness of its system of quality control states that nothing has come to its attention 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. If the most recent information indicates that deficiencies have been found in either the design or operation of the policies and procedures regarding independence, 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.
14. Where in the judgment of the engagement partner the measures adopted by the firm to rectify the situation are not sufficient, the engagement partner consults within the firm to determine whether it is appropriate to continue with, or withdraw from, the engagement in question. Such discussion and conclusions are documented.

### **Assignment of Engagement Teams**

15. **The engagement partner should be satisfied that the engagement team collectively has the necessary competencies to perform the audit engagement in accordance with applicable professional standards, regulatory and legal requirements and to enable the issuance of an auditor's report that is appropriate in the circumstances.**
16. The necessary competencies expected of the engagement team as a whole include:
- Understanding of and practical experience with similar engagements through appropriate training and participation.
  - Understanding of applicable professional standards.
  - Knowledge of auditing, accounting, tax and information technology at the appropriate level.
  - Knowledge of specific industries and relevant regulatory or legal requirements.
  - Ability to apply professional judgment.

- Understanding of the firm's quality control policies and procedures.

### **Engagement Performance**

17. **The engagement partner is responsible for the direction and performance of the audit engagement in compliance with applicable professional standards, regulatory and legal requirements and the issuance of an auditor's report that is appropriate in the circumstances. This responsibility encompasses:**
  - (a) **risk assessment and planning;**
  - (b) **supervision;**
  - (c) **documentation;**
  - (d) **review;**
  - (e) **reporting; and**
  - (f) **communicating with those charged with governance of the client entity.**
18. Direction of the audit engagement involves the members of the engagement team 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. The engagement team's responsibilities include the maintenance of an objective state of mind and an appropriate level of professional skepticism and the performance of the work delegated to them in accordance with the ethical principle of due care. Members of the engagement team are encouraged to raise questions they may have with more experienced team members. Appropriate communication occurs both within the engagement team and with the client.
19. Supervision is closely related to both direction and review and includes:
  - Tracking the progress of the audit.
  - Considering the competencies of individual members of the engagement team, whether they have 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 arising during the audit, considering their significance and modifying the planned approach as appropriate.
  - Identifying matters for further consideration during the audit.
20. 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, regulatory and legal requirements and, where applicable, in accordance with the work program;
  - (b) significant matters have been raised for further consideration;
  - (c) appropriate consultations have taken place and the resulting conclusions have been

documented;

- (d) the work performed is adequate in light of the results obtained and is appropriately documented;
- (e) the objectives of the engagement procedures have been achieved; and
- (f) the conclusions are consistent with the results of the work performed.

21. 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.

22. The engagement partner is responsible for communications with those charged with governance of the client entity. Such communication may be written or verbal and may take the form of general or specific reports to management or audit committees, for example reports regarding the client entity's system of internal control.

23. 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 and performed in accordance with applicable professional standards, regulatory and legal requirements.

24. Where more than one partner 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 the engagement team.

#### CONSULTATION

25. **The engagement partner should encourage and 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 significant consultation should be documented. The engagement partner is responsible for determining that conclusions resulting from consultation have been implemented.**

26. 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.

**Engagement Quality Control Review**

27. **For audits of listed entities, or in other circumstances where the firm's criteria require that an engagement quality control review be performed for an audit engagement, the engagement partner should:**
- (a) determine that an engagement quality control reviewer has been appointed; and**
  - (b) discuss significant matters arising during the audit, including those identified during the engagement quality control review, with the engagement quality control reviewer.**
28. The engagement partner does not issue the auditor's report until the completion of the engagement quality control review.
29. For an audit engagement where, at the start of the engagement, the firm's criteria do not require the performance of an engagement quality control review, the engagement partner is alert for changes in circumstances during the engagement that would require the performance of an engagement quality control review.

**Monitoring**

30. In accordance with ISQC 1, the firm's system of quality control includes monitoring of quality control policies and procedures. The engagement partner considers the results of the monitoring process as evidenced in the latest information circulated by the firm and considers whether deficiencies noted in that information may have an impact on the audit engagement in question. A deficiency in the firm's system of quality control may or may not, in and of itself, indicate that a particular engagement was not performed in accordance with applicable professional standards, regulatory and legal requirements or that the auditor's report was not appropriate in the circumstances.

**Effective Date**

31. This ISA is effective for audits of financial statements for periods commencing on or after 1 January 2005.

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