

### INTERNATIONAL STANDARD ON QUALITY CONTROL 1

#### QUALITY CONTROL FOR AUDIT, ASSURANCE AND RELATED SERVICES PRACTICES

#### CONTENTS

.....	Paragraphs
Introduction.....	1 - 4
Definitions .....	5
Elements of a <del>s</del> System of <del>a</del> Quality <del>e</del> Control .....	6 - 7
<u>Compliance with Ethical Requirements</u> .....	8 - 11
Leadership and <del>r</del> Responsibilities <del>w</del> Within the <del>f</del> Firm .....	<del>7-12</del> - <del>16-11</del>
Acceptance and <del>e</del> Continuance of <u>Client Relationships and</u> <u>Specific <del>e</del>Engagements</u> .....	<del>12-17</del> - <del>18-23</del>
Independence <del>and objectivity</del> .....	<del>19-24</del> - <del>22-32</del>
<u>Human <del>R</del>Resources</u> .....	<del>23-33</del> - <del>30-41</del>
Engagement <del>p</del> Performance.....	<del>31-42</del> - <del>42-54</del>
<u>Independent review Engagement Quality Control Review</u> .....	<del>43-55</del> - <del>56-69</del>
Monitoring .....	<del>57-70</del> - <del>80-63</del>
Documentation <del>of compliance with quality control policies and</del> <del>procedures</del> .....	<del>64-81</del> - <del>66-84</del>
Effective Date .....	<del>67-85</del>

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.

In exceptional circumstances, it may be judged necessary to depart from this ISQC in order to more effectively achieve the objective of a system of quality control for a firm's practices in the areas of audit, assurance and related services. When such a situation arises, the firm should be prepared to justify the departure.

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. This ISQC is intended to be read in conjunction with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the Code). Standards addressing quality control for specific types of engagement Additional standards and guidance on quality control procedures for specific types of engagement are set out in other pronouncements of the International Auditing and Assurance Standards Board (IAASB). International Standard on Auditing (ISA) 220, Quality Control for Audit Engagements, for example, ~~addresses provide~~establishes standards and provides guidance on quality control procedures for audit engagements. ~~This standard should be read in conjunction with the IFAC Code of Ethics for Professional Accountants (the IFAC Code).~~
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~~regulatory and legal 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~~regulatory and legal requirements and that ~~the~~ practitioner's reports issued by the firm are appropriate in the circumstances; and
  - (b) monitoring of the relevance and adequacy of those policies and procedures and ~~their application and effectiveness~~whether they have been complied with 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, ~~and~~ its performance, ~~and for~~ issuing the practitioner's report on the subject matter on behalf of the firm, ~~and who is permitted by law, regulation or a professional body to act in the role in the relevant jurisdiction;~~
  - (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~~a sole practitioner, partnership or corporation of professional accountants;
  - (d) "listed entity" - an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock

exchange or other equivalent body;

- (~~de~~) “partner” – any individual with ~~real or apparent~~ authority, whether through agency, office or otherwise, to bind the firm;
- (~~ef~~) “professional standards” – IAASB engagement standards and Parts A and B of the IFAC Code of Ethics for Professional Accountants;
- (~~fg~~) “staff” – individuals, other than the engagement partner, involved in performing engagements, including any experts employed or engaged by the firm in connection with that engagement ~~other than the engagement partners~~;
- (~~gh~~) “suitably qualified external consultant” – an individual who is entitled-qualified 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 of an organization that provides review services.

#### Elements of a System of Quality Control

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

- Compliance with ethical requirements.
- Leadership and responsibilities within the firm.
- Acceptance and continuance of client relationships and specific engagements.
- ~~Independence and objectivity.~~
- Human Resources.
- Engagement performance.
- ~~Independent review~~ Engagement quality control review.
- Monitoring.

7. All aspects of a system of quality control necessarily involve effective communication. Communications mechanisms/processes are ordinarily embedded/included in each of the elements of the system of quality control.

#### Compliance with Ethical Requirements

8. The firm should establish policies and procedures designed to provide it with reasonable assurance that ~~the~~ the firm and its personnel comply with relevant ethical requirements ~~and~~ including the fundamental principles of professional ethics.

9. Relevant ethical requirements relating to audit, assurance and related services 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.

10. The Code identifies the main categories of threat to the fundamental principles and general and specific safeguards against those threats. Part B of the Code includes a conceptual approach to independence for assurance engagements that takes into account threats to independence, accepted safeguards and the public interest.

11. Compliance with the fundamental principles is ~~embedded~~included in ~~the elements of the the~~ system of quality control. The firm's policies and procedures emphasize the fundamental principles, which are reinforced ~~throughby~~, in particular, the leadership of the firm, education and training, monitoring and disciplinary processes. The significance of independence for assurance engagements is such that it is addressed separately in paragraphs 24 – 32 below.

#### **Leadership and ~~Responsibilities~~ ~~Within the~~ ~~Firm~~**

**712. The firm should:**

- (a) ~~actively~~ promote an ~~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 ability 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; ~~and~~**
- (e) establish a ~~system~~process which gives positive recognition to compliance with the firm's quality control policies and procedures and sets out ~~clear and consistent~~ ~~sanctions~~a disciplinary framework for non compliance with those policies and procedures.**

**813. 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 and frequent messages from all levels of the firm's management emphasizing ~~the the firm's~~ quality control policies and procedures and the importance of of.**

- (a) performing work which complies with applicable ~~professional standards~~professional standards, regulatory and legal requirements; and**
- (b) issuing practitioner's reports that are appropriate in the circumstances.**

Such messages encourage a culture which recognizes and rewards high quality work and compliance with the firm's quality control policies and procedures. They may take the form of be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters or briefing memoranda. They may also be incorporated in the firm's internal documentation and training materials and in partner and staff appraisal procedures.— They are designed to:

- (a) support and reinforce the firm's view on the importance of quality and how it is to be achieved; and
- (b) provide practical suggestions on how to achieve quality.

914. The firm may assign operational responsibility for its system of quality control. Ultimate responsibility for that system, however, remains with the chief executive officer (or equivalent) of the firm. When assigning operational 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.

1015. The development and documentation of quality control policies and procedures assists the firm by establishing a framework for meeting applicable professional standards ~~professional standards, regulatory and legal requirements and issuing practitioner's reports that are appropriate in the circumstances.~~ A firm's policies and procedures vary depending on factors such as the size and operating characteristics of the firm and its organization. Such a framework includes appropriate communications mechanisms between the firm and engagement personnel.

1116. 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 Client Relationships and Specific eEngagements

1217. The firm should establish policies and procedures regarding the acceptance and continuance of client relationships and 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 and other ethical requirements;
- (b) it is competent to perform the engagement and has the resources to do so; and
- (c) it has assessed the risk of associating with a client that lacks integrity ~~is minimized.~~

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

existing client.

~~13~~18. Consideration of whether the firm has the competencies and resources 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.
- Sufficient staff with the necessary competencies.
- ~~Using the work of an expert~~Where necessary, the availability of experts.
- The availability of individuals able to perform Independent review~~Engagement~~quality control review.

~~• Sufficient staff with the necessary competencies.~~

~~staffing and logistics issues.~~

~~• Estimated work effort.~~

- ~~The reporting timetable.~~Ability to complete the engagement within the reporting deadline.

~~• Staff training and recruitment plans.~~

1419. When evaluating the integrity of a client, the firm:

(a) identifies the client's principal owners, key management and those charged with its governance; and

(b) determines:

(i) the nature of the entity's operations; and

(ii) what further information may be required; and

(c) considers attitudes towards such matters as aggressive interpretation of accounting standards and the internal control environment.

~~(b) determines which individuals require additional consideration regarding integrity.~~

~~When considering the integrity of the individuals identified through the procedures set out in paragraph 19 above, the firm takes into account the nature of the client's operations. It obtains information~~Information on these matters is obtained ~~Factors which the firm considers regarding the integrity of the client's principal owners, management and those charged with its governance include:~~

~~• The identity of those who control the client, its owners, those charged with its 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 including incumbent or previous practitioners.
- Obtaining written references.

- Background searches of relevant databases.

~~240.~~ 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.

~~1521.~~ 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. The firm's policies and procedures require engagement partners to provide information to the firm relevant to such continuance decisions on a timely basis as appropriate REFLECT IN ISA

~~1622.~~ 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 ~~encompass~~include 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.

~~1723.~~ Policies and procedures on withdrawal from an engagement address issues which may include:

- Discussion with the appropriate level of the entity's management and those charged with its 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~~**

~~1924.~~ 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. Such policies and procedures should require:

- (a) engagement teams to provide the firm with relevant information about client engagements to enable it to evaluate the impact, if any, on independence requirements; and



•

(b) the accumulation and circulation of the information obtained as appropriate in order to enable ~~engagement~~the firm and its personnel to determine whether they satisfy relevant independence requirements.

25. The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of ~~violations~~breaches of independence requirements and appropriate actions are taken to resolve ~~thesuch~~ situations. ~~Such~~The policies and procedures should require:

(a) relevant personnel to notify the firm in a timely manner of ~~any unresolved~~ independence ~~violations that occur~~breaches of which they become aware; and

(b) prompt communication by the firm ~~with~~to the relevant engagement partner where ~~violation~~breaches of the firm's independence policies and procedures are identified.

26. The policies and procedures required by paragraphs ~~24~~25 and ~~25~~26 above address the independence requirements of the Code, national requirements and:

(a) the identification of ~~actual, or potential,~~ threats to ~~objectivity and to~~ the independence of the firm and its personnel, including those arising from:

- The provision of services by the firm.
- Personal and business financial interests.
- Personal and business relationships;

(b) the identification of relationships which exist between the firm and its network firms and client entities and their related entities that may reasonably be thought to bear on the firm's independence and the objectivity of engagement teams, and the communication of such relationships to relevant engagement partners;

(c) action to be taken if:

- (i) threats to independence are identified; or
- (ii) breaches of the policies and procedures are identified;

(d) potential safeguards necessary to maintain independence, for example the recording of relevant information about client relationships and engagements that require the firm or its personnel to be independent or may impact on other engagements that require independence, in such a way that it is easily accessible to relevant personnel; and

(e) the identification and fulfillment of requirements for additional education on independence.

27. Notification to the firm of ~~unresolved violations that occur~~breaches of independence policies and procedures enables prompt communication, where appropriate, of relevant information to engagement partners. The firm and the relevant engagement partner are then able to take the necessary actions to preserve or restore independence. Such actions may include:

- Resolution of the situation to achieve compliance with the independence requirements.
- Resignation from the engagement.



- Disciplinary action where the firm's policies and procedures have been breached.
- Education or other corrective action to guard against future breaches.

**3528. The firm should obtain, at least annually, 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 or national requirements.**

3629. By obtaining such a confirmation, the firm demonstrates the importance it attaches to independence and makes the issue current and visible for its personnel.

**30. The firm should establish policies and procedures which:**

- (a) require the rotation of the engagement partner after a specified period of time for all audits of financial statements of listed entities, in compliance with the IFAC Code or national requirements; and**
- (b) set out criteria against which all other audit, assurance and related services engagements should be evaluated for the purpose of determining whether the engagement partner should be rotated after a specified period-in each instance.**

31. Using the same engagement partner on an audit engagement over a prolonged period may create a threat to independence. The IFAC Code recognizes that this threat is particularly relevant in the context of financial statement audits of listed entities.; Consequently, for such engagements the Code requires the rotation of the engagement partner after a pre-defined period and provides standards and guidance on this matter.

32. The firm considers whether there are additional sensitivities associated with engagements other than audits of financial statements of listed entities. Such sensitivities may be addressed by rotating the engagement partner for those engagements after a pre-defined period. Criteria that the firm considers when determining which engagements other than audits of financial statements of listed entities are to be subject to rotation of the engagement partner 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.
- The number of engagement partners in the firm with the necessary knowledge and experience to serve in that role for the engagement in question.

32. When determining which engagements other than audits of financial statements of listed entities are to be subject to rotation of the engagement partner, if the firm has only a few engagement partners with the necessary knowledge and experience to serve in that role for the engagement in question, rotation of the engagement partner may not be an appropriate safeguard against the potential threat to independence. In these circumstances the firm applies other safeguards to reduce the threat to an acceptable level. Such safeguards may

include the performance of an engagement quality control review (see paragraph 59 below).

~~33. When the firm determines that an engagement other than a financial statements audit of a listed entity is to be subject to rotation of the engagement partner, it considers the length of time the engagement partner has served in that capacity in determining when that engagement partner should be rotated. However, the engagement partner ordinarily continues in that role for at least two additional years before rotating off the engagement.~~

~~34. Some degree of flexibility over timing of the rotation of an engagement partner may be necessary in certain circumstances. Examples of such circumstances include:~~

- ~~• Situations when the engagement partner's continuity is especially important to the client, for example, when there will be major changes to the client's structure that would otherwise coincide with the rotation of the engagement partner.~~
- ~~• Situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard against the threat resulting from using the same engagement partner over a prolonged period.~~

~~— In all such circumstances when the engagement partner is not rotated after such a pre-defined period equivalent the firm considers the application of safeguards to reduce any threats to independence to an acceptable level.~~

~~20. Such policies and procedures address the independence and objectivity requirements of the IFAC Code of Ethics for Professional Accountants 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.~~
  - ~~• 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;~~
- ~~(d) the identification and fulfillment of requirements for additional education on independence and objectivity; and~~

~~2135. The firm should obtain, an annual at least annually, 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 or national requirements.~~

~~2236. By obtaining such a confirmation, the firm demonstrates the importance it attaches to independence and makes the issue current and visible for its staffpersonnel.~~

## Human Resources

~~2333.~~ The firm should establish policies and procedures to provide it with reasonable assurance that it has sufficient personnel with the ~~competencies~~ personal qualities necessary to perform its engagements in accordance with applicable professional standards ~~professional standards, regulatory and legal requirements and to enable the issuance of practitioner's reports that are appropriate in the circumstances.~~

~~2434.~~ 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.

~~2535.~~ Competencies are developed through:

- (a) professional education and development; and
- (b) work experience and coaching by other members of the engagement team; ~~and~~

36. The firm's performance evaluation, appraisal, compensation and promotion procedures give due recognition and reward to the attainment of appropriate competencies. ~~(e) performance evaluation and career advancement.~~

~~Professional partners and~~ 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 and that failure to adhere to the firm's policies and procedures may result in disciplinary action.

~~2637.~~ 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

~~2738.~~ 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~~ appropriate personnel within the client; and
- (b) the engagement partner has both the necessary competencies and sufficient time to perform the role.

**2839.** The firm should also assign appropriate staff with the necessary competencies to perform engagements in accordance with applicable **professional standards**~~professional standards, regulatory and legal requirements and to enable the issuance of practitioner's reports that are appropriate in the circumstances.~~

**2940.** 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 and regulatory requirements and to enable the issuance of practitioner's reports that are appropriate in the circumstances.~~ These procedures need not be complex for small firms or offices, ~~where the competencies of professional staff are widely known within the firm.~~

**3041.** The competencies considered when assigning engagement teams include:

- Understanding ~~of~~ and practical experience ~~with of~~ engagements through ~~participation and~~ appropriate training ~~and participation.~~
- Understanding of applicable professional standards.
- Appropriate technical knowledge.
- Knowledge of specific industries and relevant ~~regulatory requirements~~regulatory or legal requirements.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

### Engagement **P**performance

**3142.** The firm should establish policies and procedures to provide it with reasonable assurance that engagements are performed in accordance with applicable **professional standards**~~professional standards, regulatory and legal requirements and that the practitioner's reports that are issued are appropriate in the circumstances.~~

~~463. Such policies and procedures should encompass all phases of the design and execution of the engagement.~~

~~32. To the extent appropriate, t~~These~~Such~~ policies and procedures ~~should~~ address: matters on which the firm seeks to establish consistency of practice and performance between engagements and among personnel. Often, this will be accomplished by establishing manuals, software tools or standardized documentation. Matters addressed include:

- How all engagement personnel are briefed on the engagement to obtain an understanding of the objectives of their work.
- Processes for ensuring that applicable engagement performance standards are followed.
- Processes of engagement supervision, staff training and coaching.
- Methods of ~~supervis~~reviewing work performed, ~~assessing~~ significant judgments made and ~~reviewing~~ the form of report being issued.
- Processes to keep all policies and procedures current.

The policies and procedures take into account any specific guidance set out in professional standards such as those published by the IAASB.

~~(a) planning risk assessment and planning;~~

~~(b) performance;~~

~~(c) supervision;~~

~~(d) documentation;~~

~~(e) review; and~~

~~(f) reporting.~~

**3344.** 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.

**3445.** Supervision ~~is closely related to both direction and review and~~ includes:

- Tracking the progress of the engagement.
- Considering ~~whether the other~~ the competencies of individual members of the engagement ~~team team, whether they~~ 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.

**3546.** 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~~ professional standards, regulatory and legal requirements and, where applicable, in accordance with the work program; ~~and;~~

~~(b) the work performed is adequate in light of the results obtained and is appropriately documented;~~

~~(eib).~~—significant matters have been raised for further consideration; and

(c) ~~(dii)~~—appropriate consultations have taken place and the resulting conclusions have been documented; and

~~(db)~~ the work performed is adequate in light of the results obtained and is appropriately documented; and;

(e) ~~(ei)~~—the objectives of the engagement procedures have been achieved; and

(f) ~~(fii)~~—the conclusions are consistent with the results of the work performed.

50. The other elements of engagement performance listed in paragraph 46 above are addressed

in individual IAASB engagement standards.

#### CONSULTATION

**3647.** 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 significant consultations are documented; **and**  
(d) conclusions resulting from consultations are implemented.-

**3748.** 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.

**3849.** Consultation uses the collective experience and technical expertise of the firm and reduces the risk of occurrence– of significant technical or professional errors. It also improves the application of professional judgment-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.

**3950.** 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.

**4051.** 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.

52. The documentation of significant consultations is agreed by both the individual seeking consultation and the individual that was consulted, and is sufficiently complete and detailed to enable an understanding of:

- (a) the issue on which consultation was sought; and
- (b) the results of the consultation including any decisions taken and the basis for those decisions.

#### DIFFERENCES OF OPINION

**4153.** The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and between the engagement partner and the independent-reviewengagement quality control reviewer.

~~4254.~~ 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~~ an engagement quality control 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 reviewEngagement Quality Control Review**

~~4355.~~ The firm should establish policies and procedures which:

- (a) require the performance of ~~an independent review~~ an engagement quality control review for all audits of financial statements of listed entities;
- (b) set out criteria against which all other audit, assurance and related services engagements should be evaluated ~~set out criteria for the purpose of determining whether an independent reviewan engagement quality control review should be performed forin each instance other audit, assurance and related services engagements; and~~
- (c) require the completion of the engagement quality control review before the issuance of the practitioner's report; and
- (d) set out:
  - (i) criteria for the eligibility of ~~independent review~~ engagement quality control reviewers;
  - (ii) the nature, and extent ~~and timing of an independent reviewan engagement quality control review~~; and
  - (iii) documentation requirements for ~~an independent reviewan engagement quality control review~~.

~~4456.~~ ~~An independent review~~ An engagement quality control review ~~is includes~~ an objective evaluation of:

- ~~(a) The key significant judgments made by the engagement team;~~
- ~~(b) The conclusions reached in formulating the practitioner's report; and~~
- Other s(e) significant matters that have come to the attention of the independent reviewengagement quality control 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.~~

~~4557.~~ The ~~independent review~~ engagement quality control reviewer's work is designed to provide a basis to conclude ~~that no whether any~~ 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, regulatory and legal requirements or that the practitioner's report was not appropriate in the circumstances.

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4658. The firm considers whether there are additional sensitivities associated with engagements other than audits of financial statements of listed entities. Such sensitivities may be addressed by performing an engagement quality control review. 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~~an engagement quality control 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 REVIEW~~ENGAGEMENT QUALITY CONTROL REVIEWERS

4759. An independent review~~An engagement quality control review~~ 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~~an engagement quality control review.

4860. The firm's policies and procedures on the eligibility of independent review~~engagement quality control review~~ers address:

- (a) the technical qualifications required to perform the role; and
- (b) the degree to which the ~~independent review~~engagement quality control reviewer can be involved with the engagement without compromising the role.

4961. The firm's policies and procedures on the technical qualifications of independent review~~engagement quality control review~~ers address the technical expertise and experience<sup>+</sup> 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 an engagement quality control review is performed for a financial statements audit of a listed entity, the engagement quality control reviewer is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner.

62. Where sole practitioners and small firms identify engagements requiring independent review~~engagement quality control review~~, a suitably qualified and experienced external consultant may be engaged to conduct that review. ~~For an independent review~~an engagement quality control review of an audit of financial statements, the consultant is an individual with sufficient and appropriate experience and authority to~~entitled to act as an audit engagement partner~~. When using an external consultant, appropriate arrangements are made to safeguard client confidentiality. Such arrangements are set out in writing.

<sup>+</sup> ~~The firm considers whether specialist knowledge is a requirement for independent reviews of entities in certain industries or for specific issues.~~

~~5063.~~ The firm's policies and procedures are designed to maintain the objectivity of the ~~independent review~~engagement quality control reviewer and the reviewer's independence from the engagement team. For example, the ~~independent review~~engagement quality control reviewer does not:

- (a) ~~otherwise~~ 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~~covered by the current engagement.

~~5164.~~ The ~~independent review~~engagement quality control reviewer may be consulted by the engagement partner during the course of the engagement. Such consultation need not compromise the ~~independent review~~engagement quality control 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. Where this is not possible a replacement reviewer is appointed.

~~5265.~~ The firm's policies provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired, for example w~~Where the independent review~~engagement quality control reviewer has undertaken the ~~independent review~~engagement quality control 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.~~

#### TIMING OF THE ENGAGEMENT QUALITY CONTROL REVIEW

~~66.~~ The engagement quality control 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.

~~67.~~ Where the engagement quality control 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.

#### NATURE, AND EXTENT AND TIMING OF THE INDEPENDENT REVIEW ENGAGEMENT QUALITY CONTROL REVIEW

~~5368.~~ ~~An independent review~~An engagement quality control review involves discussion with the engagement partner, a review of the financial statements or other subject matter and the practitioner's report and, to the extent considered necessary by the ~~independent review~~engagement quality control reviewer, a review of working papers. The extent of the ~~independent review~~engagement quality control 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~~an engagement quality control review includes consideration of the following:

- ~~(a) – The independence of the firm and the engagement team’s evaluation of the firm’s independence;~~
- ~~(b) – The planning process, including risk assessments and the planned responses to those risks;~~
- ~~(c) – The key significant judgments made, particularly in high risk areas relating to significant risks;~~
- ~~(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**
- ~~The adequacy of supervision and review.~~
- Whether the documentation reviewed reflects the work performed and supports the conclusions drawn as a result of that work.
- ~~(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~~ENGAGEMENT QUALITY CONTROL REVIEW

~~56~~**69.** Policies and procedures on documentation of the ~~independent review~~engagement quality control review include evidencing ~~that~~:

- (a) the procedures required by the firm’s policies on ~~independent review~~engagement quality control review have been performed;
- (b) the ~~independent review~~completion of the engagement quality control review before the issuance of the practitioner’s report ~~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~~the conclusions reached by the engagement quality control reviewer.

#### Monitoring

~~57~~**70.** 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**complied with in practice.

~~58~~71. Monitoring of 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~~paragraph 6 above and the review of a selection of completed engagements. The responsibility for monitoring the system of quality control is different from the responsibility for the establishment of quality control policies and processes. Wherever possible, the firm separates operational responsibility for the two functions.

~~59~~72. Monitoring procedures are performed by competent individuals. The monitoring of those elements of the firm's system of quality control relating to independence is performed at least annually~~on a continuous basis~~. The monitoring of the other elements of a firm's system of quality control, including the review of individual engagements, is performed ~~over a period of time, ordinarily~~at least every three years. The manner in which the monitoring cycle is organized will depend on many factors, including:

- The size of the firm.
- The number and geographical location of offices.
- The degree of authority afforded to both personnel and offices.
- The nature and complexity of the firm's practice and organization.
- The risks associated with the firm's clients.

~~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~~73. The review of individual engagements includes the selection of some engagements for review without prior notification of the engagement team. Individual engagements are reviewed by individuals who were not involved in performing either the engagement or, where applicable, the ~~independent review~~engagement quality control 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~~74. 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~~professional standards, regulatory and legal requirements;
- (b) whether the practitioner's reports that are issued are appropriate in the circumstances;  
and
- ~~(b)~~(c) whether the firm's quality control policies and procedures have been appropriately applied.

~~6275.~~ The firm communicates the results of the monitoring procedures to relevant personnel. The firm evaluates the impact of deficiencies noted as a result of the monitoring process and determines whether they are either:

- (a) isolated instances which 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, regulatory and legal requirements and that the practitioner's reports issued are appropriate in the circumstances; or
- (b) systemic or repetitive deficiencies, which may indicate that further investigation and corrective action may be appropriate. 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.

~~6376.~~ The firm's evaluation of deficiencies will ordinarily ~~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~~ and disciplinary action against those who repeatedly fail to comply with the standards of the firm.

~~77.~~ Where the firm identifies ~~d~~Specific deficiencies relevant to a specific engagement, these are communicated to the engagement partner and other appropriate members of the engagement team individuals within the firm, together with identified in the system of quality control, along with suggested remedial actions where appropriate.

~~78.~~ , are communicated to the engagement partner and other members of the engagement team. In particular, wWhere 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.

~~79.~~ Where the results of the monitoring procedures indicate that a practitioner's report may be inappropriate, the subject matter was inaccurate or procedures were omitted during the performance of the engagement in question, the firm considers what further action is appropriate in compliance with relevant professional standards, regulatory and legal requirements. It may also wish to obtain legal advice.

~~80.~~ The firm circulates information on the effectiveness of its system of quality control on at least an annual basis. The information is circulated to engagement partners and other staff as appropriate. It includes:

- A description of the monitoring procedures performed.
- The conclusions drawn from the monitoring procedures.
- Where relevant, a description of systemic or repetitive deficiencies and of the actions taken to resolve or amend those deficiencies.

**Documentation ~~of compliance with quality control policies and procedures~~**

**6481. The firm should document policies and procedures regarding the elements of the system of quality control, including:**

- Compliance with independence requirements.
- Leadership and responsibilities within the firm.
- Acceptance and continuance of client relationships and specific engagements.
- Independence.
- Human resources.
- Engagement performance.
- Engagement quality control review.

The firm should also document policies and procedures addressing monitoring procedures.

~~The firm should establish policies and procedures requiring appropriate documentation to demonstrate compliance with each element of its system of quality control.~~

82. The manner in which such matters are documented is for the firm to determine. Factors to consider when determining the form and content of documentation of each of the elements of the system of quality control include:

- The size of a firm and the -
- ~~—~~ 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.

83. Appropriate documentation relating to monitoring:

- (a) sets out monitoring procedures, including the procedure for selecting completed engagements for review;
- (b) records the results obtained from the evaluation of the other elements of the system of quality control;
- (c) provides an evaluation of:
  - (i) adherence to applicable professional standards, regulatory and legal requirements;
  - (ii) whether the practitioner's reports that are issued are appropriate in the circumstances; and
  - (iii) whether the firm's quality control policies and procedures have been appropriately applied; and
- (d) details deficiencies noted, evaluates their impact, sets out the basis for determination as to whether further action is necessary and details that action where applicable.

84. 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.

- ~~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**

~~6785.~~ This ISQC is effective as of..... 1 January 2005.