

JANUARY 2003 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.

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 practitioner'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 regarding 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.
 - (a) firm;
 - (b) partner;
 - (c) professional standards;
 - (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

47. The engagement partner should ~~actively~~ promote a quality – oriented internal culture ~~in the context of~~ each ~~specific audit~~ engagement to which ~~the that~~ engagement partner is assigned.

58. The engagement partner ~~participates in an effective and timely manner in:~~

- ~~(a) the work of the engagement team; and~~
- ~~(b) performance evaluation.~~

~~— provides~~ This involvement assists the engagement partner in providing a clear ~~and and~~ consistent message to the ~~engagement~~ team ~~throughout all stages of the audit emphasizing~~ emphasizing:

- ~~(a) the importance of of:~~
 - ~~(i) performing work which complies with applicable professional standards 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 Continuation of Client Relationships and Specific Audit Engagements

69. The engagement partner should ~~determine be satisfied~~ that appropriate procedures ~~on~~ ~~regarding~~ the acceptance and continuance of ~~client relationships and specific~~ audit engagements ~~are have been~~ followed for those audit engagements for which ~~the that~~ engagement partner is responsible ~~and should document conclusions reached in this regard.~~

710. The engagement partner, together with others within the firm as appropriate, ~~undertakes and documents procedures addressing~~ documents consideration of:

- (a) ~~the~~ competence ~~of the firm and the engagement team~~ to undertake the engagement;
- (b) ~~the~~ independence ~~and of both the firm and the engagement team~~ objectivity;
- (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
- (fg) 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.

811. The decision on whether to continue a client relationship includes consideration of significant matters that have arisen during the current or prior engagement-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 ~~and objectivity~~

912. 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 ~~that require the firm or its personnel to~~ be independent;
- (b) obtain sufficient ~~collect~~ information regarding the ~~full~~ scope of services provided to the client by the firm in order to ~~obtain reasonable assurance that~~ evaluate whether there are ~~no~~ conflicts with professional requirements;
- (c) obtain ~~and consider~~ the most recent information ~~disseminated-circulated~~ by the firm on the results of the monitoring process on that part of the firm's system of quality control relating to ~~the effectiveness of its system of quality control~~ independence and consider its impact on the audit engagement; and
- (d) determine that ~~a current written acknowledgement of independence exists from each member of the engagement team~~ 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.

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

1013. Where the most recent information ~~dissemin~~circulated by the firm on the effectiveness of its system of quality control states that indicates that nothing has come to ~~the its~~ 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.

~~1414~~ Where in the judgment of the engagement partner the measures adopted by the firm the measures adopted by the firm to rectify the situation are not sufficient, the engagement partner ~~discusses this with others in~~ 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 eEngagement tTeams

~~1215~~ The engagement partner should determine be satisfied that the engagement team collectively has the necessary competencies to perform the audit engagement in accordance with applicable ~~professional standards~~ professional standards, regulatory and legal requirements and to enable the issuance of an auditor's report that is appropriate in the circumstances.

~~1316~~ The necessary competencies expected of the engagement team ~~as a whole considered by the engagement partner~~ 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.

- ~~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 pPerformance

~~1417~~ The engagement partner is responsible for the direction and performance of the

~~audit engagement and its performance~~ in compliance with applicable ~~professional standards~~ professional standards, regulatory and legal requirements and the issuance of an auditor's report that is appropriate in the circumstances. This responsibility ~~encompasses~~ encompasses:

(a) risk assessment and planning;

~~(b) performance~~;

~~(e)~~ supervision;

~~(d)~~ documentation;

~~(e)~~ review; ~~and~~

~~(f)~~ reporting; and

(f) communicating with those charged with governance of the client entity.

~~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~~18. Direction of the ~~engagement team~~ audit engagement involves ~~team~~ 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.

~~17.~~ ISA 300 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 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~~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

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

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 ~~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~~ arising during the audit, considering their significance and modifying the planned approach as appropriate.
- Identifying matters for further consideration during the audit.

~~1920.~~ 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.

~~(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.~~

~~2021.~~ 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.

2123. 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 and performed~~ in accordance with applicable ~~professional standards~~ professional standards, regulatory and legal requirements.

2224. 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

2325. 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 ~~such significant~~ consultation should be documented ~~by the appropriate members of the engagement team~~. **The engagement partner is responsible for determining that conclusions resulting from consultation have been implemented.**

2426. 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 reviewEngagement Quality Control Review

2527. ~~In~~ For audits of listed entities, or in other circumstances where the firm's ~~criteria~~ **criteria** require that ~~an independent review~~ **an engagement quality control review** be performed for an audit engagement, the engagement partner ~~should~~ **should:**

(a) **determine that an engagement quality control reviewer has been appointed; and communicate with the independent reviewer to co-ordinate their work**(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.

2629. For an audit engagement where, at the start of the engagement, the firm's criteria do not require the performance of ~~an independent review~~ **an engagement quality control review**, the engagement partner ~~should be~~ **is** alert for changes in circumstances during the engagement

that would require the performance of ~~an independent review~~ an engagement quality control review.

Monitoring

~~2730.~~ 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 ~~Deficiencies~~ in the firm's system of quality control ~~do may or may~~ may not, in and of ~~themselves 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

~~2831.~~ This ISA is effective for audits of financial statements for periods ending-commencing on or after
.....1 January 2005.

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