

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

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

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

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 standard is ~~intended~~ to be read in conjunction with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code). 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). ISA 220, for example, establishes standards and provides guidance on quality control procedures for audit engagements.
2. **The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that practitioner's reports issued by the firm or engagement partners are appropriate in the circumstances.**
3. A system of quality control ~~is a process that consists of~~ ~~consists of:~~
  - ~~(a) policies and procedures, including monitoring, designed to achieve the objectives set out in paragraph 2 above provide the firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements and that 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 whether they~~

~~have been complied with in practice.~~

4. The ~~requirements of standards and guidance contained in~~ this ISQC apply to all firms; however ~~it is likely that individual~~ firms ~~will be free to~~ develop differing policies and procedures ~~to satisfy these requirements suited to their particular circumstances provided they are consistent with this ISQC.~~ The nature, timing and extent of those policies and procedures will depend on many factors, including the size and operating characteristics of the firm.

## 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, 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 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;
- (e) “Network firm” – an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally;
- ~~(ef) “partner” – any individual with authority, whether through agency, office or otherwise, to bind the firm;~~
- ~~(fgf) “Personnel” – partners and staff;~~
- ~~(ghg) “Professional standards” – IAASB engagement standards and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants and national ethical requirements;~~
- ~~(hih) “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; and~~
- ~~(jii) “Suitably qualified external consultant” – an individual who is qualified possesses the competencies 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 audit, assurance or related services engagements or of an organization that provides relevant review services.~~

## Elements of a System of Quality Control

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

- Leadership and responsibilities within the firm.

(a) Ethical requirements.

- ~~Leadership and responsibilities within the firm.~~

(b) Acceptance and continuance of client relationships and specific engagements.

- ~~Independence and objectivity.~~

(c) Human resources.

(d) Engagement performance.

(e) Engagement quality control review.

(f) Complaints and allegations

(g) Monitoring.

### Leadership and Responsibilities Within the Firm

~~147.~~ The firm should:

- (a) Promote an internal culture that recognizes that quality is essential in performing engagements;
- (b) Develop, document and implement quality control policies and procedures;
- (c) Communicate those quality control policies and procedures to all engagement teams and others within the firm who need to be aware of them; and
- (d) ~~establish a process that~~ Gives positive recognition to compliance with ~~the firm's~~ quality control policies and procedures and sets out an appropriate disciplinary framework for non-compliance with those policies and procedures.

~~138.~~ The internal culture of a firm is influenced by the “tone at the top” of that firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent messages and actions, from all levels of the firm’s management emphasizing the firm’s quality control policies and procedures and the importance of:

- (a) Performing work that complies with professional standards and applicable regulatory and legal requirements; and
- (b) Issuing practitioner’s reports that are appropriate in the circumstances.

Such messages and actions encourage a culture that recognizes and rewards high quality work and compliance with the firm’s quality control policies and procedures. They may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters or briefing memoranda. They are 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.

~~159.~~ The development and documentation of quality control policies and procedures assists the

firm by establishing a framework for meeting professional standards and applicable regulatory and legal requirements, and issuing practitioner's reports that are appropriate in the circumstances. Such a framework includes appropriate communications between the firm and engagement personnel.

~~16~~10. To assist in effective implementation, the firm communicates quality control policies and procedures to all 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.

~~17~~11. Positive recognition for compliance with the firm's quality control policies and procedures is achieved through methods including the following:

- Partner and staff appraisals.
- Promotion and remuneration policies.

An appropriate disciplinary framework for non-compliance with the firm's quality control policies and procedures sets out clear ~~penalties~~~~sanctions~~ for instances of non-compliance together with guidance on how and in what circumstances such ~~penalties~~~~sanctions~~ will be applied.

~~12~~12. The firm's policies and procedures should acknowledge that the chief executive officer (or equivalent) of the firm has ultimate responsibility for the firm's system of quality control. However, if the chief executive officer ~~may assign~~ operational responsibility for the system to one or more individuals, ~~in such circumstances,~~ the chief executive officer should appoint a person or persons with sufficient and appropriate experience and ability and the necessary authority to assume that operational responsibility.

~~14~~13. ~~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 and develop appropriate policies and procedures. Necessary authority enables the person or persons to develop and implement appropriate those policies and procedures to address those issues.~~

### Ethical Requirements

~~7~~14. The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements ~~including the fundamental principles of professional ethics.~~

~~8~~15. Relevant ethical requirements relating to audit, assurance and related services engagements ordinarily comprise Parts A and B of the IFAC Code together with applicable national requirements. The IFAC 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 which are:~~

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality;
- (e) Professional behavior; and
- (f) Technical standards.

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

**1017.** ~~Compliance with the fundamental principles is included in the system of quality control.~~  
The firm's policies and procedures emphasize the fundamental principles, which are reinforced by, 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 ~~25-118~~ – ~~34-207~~ below.

#### INDEPENDENCE ~~AND OBJECTIVITY~~

**25118.** 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 where required by the IFAC Code or national pronouncements. Such policies and procedures should be designed to:

- (a) Enable the firm to identify and evaluate circumstances that may create threats to independence and to take appropriate action to eliminate those threats or reduce them to an acceptable level by the application of safeguards; and
- (b) Provide reasonable assurance of compliance with the independence requirements specified in ~~the Code~~the IFAC Code and national pronouncements.

**26129.** Such policies and procedures should include requirements for:

- (a) Engagement teams to provide the firm with relevant information about client engagements, including the scope of services provided to that client, to enable it to evaluate the impact, if any, on independence requirements;
- (b) ~~engagement teams~~Personnel to notify the firm in a timely manner of ~~interests or relationships matters~~ that may pose a threat to independence, where applicable in required circumstances, so that appropriate action can be taken; and
- (c) The accumulation and communication of relevant information to appropriate personnel in order to enable:
  - (i) The firm and its personnel to determine whether they satisfy relevant independence requirements;
  - (ii) The firm to keep up to date records relating to independence; and
  - (iii) The firm to take appropriate action regarding identified threats to independence on specific engagements.

**271320.** The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of ~~any specific~~ independence requirements and appropriate actions are taken to resolve such situations. The policies and procedures should require:

- (a) ~~relevant personnel engagement partners~~ Personnel to notify the firm in a timely manner of independence breaches of which they become aware; ~~and~~
- (b) Prompt communication by the firm to the relevant engagement partner of identified ~~independence~~ breaches of the firm's policies and procedures, where such breaches ~~that~~ represent a threat to independence on engagements for which that engagement partner is responsible and that need to be addressed by the engagement partner; ~~and~~
- (c) Prompt communication by the engagement partner to the firm regarding the action taken to resolve the matter.

**281421.** Comprehensive guidance on threats to independence and safeguards, including application to specific situations, is set out in Section 8 of ~~the Code~~ the IFAC Code. The policies and procedures required by paragraphs ~~25-118~~ – ~~27-1320~~ above address the independence requirements of ~~the Code~~ the IFAC Code and national requirements including the following:

- The identification of threats to the independence of the firm and its personnel, including those arising from the following:
  - The provision of services by the firm.
  - Personal and business financial interests.
  - Personal and business relationships.
- The identification of relationships ~~which~~ that 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.
- Action to be taken if:
  - Threats to independence are identified; or
  - Breaches of the policies and procedures are identified.
- 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.
- ~~(e)~~ The identification and fulfillment of requirements for additional education on independence.

**291522.** Notification to the firm of breaches of independence policies and procedures enables prompt communication, where appropriate, of relevant information to engagement partners and others in the firm who need to take appropriate action. The firm and the relevant engagement partner are then able to take the necessary actions. Such actions may



include the following:

- ~~The a~~Application of appropriate safeguards to eliminate the threats to independence or reduce them to an acceptable level.
- Disciplinary action where the firm's policies and procedures have been knowingly breached.
- Education or other corrective action to guard against future breaches.
- ~~Resignation-Withdrawal~~ from the engagement.

~~3016~~**23.** The firm should obtain, at least annually, confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by ~~the Code~~the IFAC Code and/or national requirements/pronouncements.

~~3117~~**24.** ~~Such e~~Confirmation may be in written or electronic form. By obtaining ~~this-such~~ confirmation, the firm demonstrates the importance that it attaches to independence and makes the issue current and visible for its personnel.

~~3218~~**25.** The firm should establish policies and procedures ~~which~~that:

- ~~require~~Requiring 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 Code~~the IFAC Code or national requirements/pronouncements where these are more restrictive; and
- Setting 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; ~~and-~~
- Requiring the rotation of the engagement partner after a specified period of time for all audit, assurance and related services engagements meeting the criteria established in compliance with (b) above.

~~3319~~**26.** Using the same engagement partner on an audit engagement over a prolonged period may create a ~~familiarity~~ threat to independence or otherwise impair the quality of performance of the engagement. ~~The Code~~The IFAC Code recognizes that the threat to independence is particularly relevant in the context of financial statement audits of listed entities. Consequently, for such engagements ~~the Code~~the IFAC Code requires the rotation of the engagement partner after a pre-defined period, normally not more than seven years, and provides standards and guidance on this matter. Other national requirements may establish shorter rotation periods.

~~3420~~**7.** Using the same engagement partner on engagements other than audits of financial statements of listed entities may also create a ~~familiarity~~ threat to independence ~~or objectivity~~ or otherwise impair the quality of performance of the engagement. The firm considers whether it is appropriate to rotate 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.

~~35. 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 the firm considers the application of equivalent safeguards to reduce any threats to independence to an acceptable level.~~

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

~~1828.~~ The firm should establish policies and procedures ~~regarding the for~~ acceptance and continuance of client relationships and specific engagements. ~~The policies and procedures should be that are~~ designed to provide ~~the firm~~ with reasonable assurance that it undertakes or continues only those relationships and engagements where it:

- (a) ~~it~~ Has considered the integrity of the client and does not believe that the client lacks integrity;
- (b) ~~it~~ Is competent to perform the engagement and has the resources to do so; and
- (c) ~~it~~ Can comply with ~~applicable independence and other~~ ethical requirements, including those relating to independence where applicable.

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

~~203029.~~ With regard to the integrity of a client, the firm considers:

- (a) The identity and business reputation of the client's principal owners, key management and those charged with its governance;
- (b) The nature of the ~~entity's~~ client's operations including its business practices;
- (c) The client's attitude towards such matters as aggressive interpretation of accounting standards and the internal control environment; and
- (d) ~~what~~ Further information ~~may be~~ if necessary required.

Information on these matters is obtained through, for example:

- Discussions with third parties including existing or previous providers of professional

accountancy services to the client practitioners.

- Obtaining references from third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

192930. 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 or subject matters.
- Experience with relevant regulatory or reporting requirements or the ability to gain the necessary skills and knowledge in an effective manner.
- Sufficient staff with the necessary competencies.
- Where necessary, the availability of experts.
- Where applicable, ~~t~~he availability of individuals able to perform engagement quality control review.
- Ability to complete the engagement within the reporting deadline.

2431. The firm also considers whether accepting an engagement may give rise to an actual or perceived conflict of interest with existing clients. Where ~~such a~~ potential conflict is identified, the firm considers whether it is appropriate to accept the appointment.

2432. The decision on whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous engagements and their implications for the continuance of that relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary competencies.

2333. Where the firm has obtained information that would have caused it to decline ~~the an~~ appointment to an engagement had that information been obtained earlier, policies and procedures on the continuance of ~~an the~~ engagement include consideration of:

- (a) The 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.

2434. Policies and procedures on withdrawal from an engagement address issues ~~which that~~ may include the following:

- Discussion with the appropriate level of the ~~entity's client'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 the withdrawal from the engagement and the reasons for the withdrawal 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 consideration of 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.
- Documentation of significant issues, consultations and the basis for ~~and~~ the conclusions reached.

## Human Resources

~~36~~35. The firm should establish policies and procedures to provide it with reasonable assurance that it has sufficient personnel with the competencies and integrity commitment to ethical principles necessary to perform its engagements in accordance with professional standards and applicable regulatory and legal requirements, and to enable the issuance of practitioner's reports by the firm or engagement partners that are appropriate in the circumstances.

~~37~~36. Such policies and procedures address recruitment, performance evaluation, career development, promotion, compensation and the estimation of personnel needs in order to ascertain the number and characteristics of the individuals required for ~~the its~~ engagements. 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.

~~38~~37. Competencies are developed through methods ~~which~~that may include the following:

- Professional education, and
- Continuing professional development.
- Work experience, and
- coaching ~~Coaching~~ by peers, for example other members of the engagement team.

~~39~~38. The firm's performance evaluation, ~~appraisal~~, compensation and promotion procedures give due recognition and reward to the attainment of appropriate competencies and commitment to ethical principles. Partners and staff:

- (a) Are made aware of the firm's expectations regarding performance;
- (b) Are provided with evaluation of, and 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.

~~40~~39. 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

~~41~~40. The firm should ~~appoint~~ assign an engagement partner to each engagement to take responsibility for that engagement on behalf of the firm. . The firm should. It should

~~develop~~ establish policies and procedures requiring that:

- (a) The identity and role of the engagement partner is communicated to key members of client management and those responsible for governance ~~within the client~~; and
- (b) The engagement partner has both the necessary competencies and sufficient time to perform the role.

~~4241.~~ The firm should also assign appropriate staff with the necessary competencies to perform engagements in accordance with professional standards and applicable regulatory and legal requirements, and to enable the issuance of practitioner's reports by the firm or engagement partners that are appropriate in the circumstances.

~~4342.~~ The firm establishes procedures to assess the knowledge, skills and abilities of professional staff. ~~These procedures need not be complex for small firms or offices.~~

~~4443.~~—The competencies considered when assigning engagement teams include the following:

- Understanding and practical experience of similar engagements through appropriate training and participation.
- Understanding of ~~applicable~~ professional standards and applicable regulatory and legal requirements.
- Appropriate technical knowledge, including relevant information technology knowledge.
- 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

~~45443.~~ The firm should establish policies and procedures to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable regulatory and legal requirements, and that the practitioner's reports that are issued by the firm or engagement partners are appropriate in the circumstances.

~~46454.~~ Such policies and procedures address matters on which the firm seeks to establish consistency ~~of practice and in the quality of engagement~~ performance by its personnel between engagements and among personnel. Often, this ~~will be~~ accomplished by establishing written or electronic manuals, software tools or other forms of standardized documentation and industry or specific subject matter guidance materials. Matters addressed include the following:

- How ~~all~~ engagement personnel teams 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 reviewing the work performed, the significant judgments made and the form of report being issued

- Appropriate documentation of the timing and extent of the review.
- Processes to keep all policies and procedures current.

~~—The policies and procedures take into account any specific guidance set out in professional standards.~~

~~474~~**65.** 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~~are assigned.

~~484~~**76.** Supervision includes the following:

- Tracking the progress of the engagement.
- 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 engagement.
- Addressing significant issues ~~raised~~arising during the engagement, considering their significance and modifying the planned approach as appropriate.
- Identifying matters for ~~consultation or further~~ consideration by more experienced engagement team members during the engagement.

~~494~~**87.** Work performed by members of the engagement team is reviewed by more experienced engagement team members or the engagement partner. Reviewers consider whether:

- (a) The work has been performed in accordance with professional standards and applicable 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 and implemented;
- (d) The work performed supports the conclusions reached and is appropriately documented; and
- (e) The objectives of the engagement procedures have been achieved; ~~and~~
- ~~(f) the conclusions are consistent with the results of the work performed.~~

#### CONSULTATION

~~504~~**98.** 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;
- (c) Conclusions resulting from such consultations are documented; and
- (d) Conclusions resulting from consultations are implemented.

- 515049.** 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.
- 52510.** Consultation uses the collective experience and technical expertise of the firm and reduces the risk of error. It also improves the application of professional judgment. The firm seeks to establish a cultureelimate in which consultation is recognized as a strength and encourages partners and staff to consult when they are considering a difficult or contentious matter.
- 53521.** 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 (or, where applicable, outside the firm) are consulted on significant technical, ethical and other matters, and that the conclusions resulting from consultations are properly implemented and documented.
- 54532.** 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 that provide relevant services. In such circumstances, appropriate arrangements are made to safeguard client confidentiality.
- 55543.** 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 and the manner in which they were implemented.

#### DIFFERENCES OF OPINION

- 56554.** **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, where applicable, –the engagement quality control reviewer.**
- 57565.** Such procedures encourage identification of issues at an early stage and provide guidelines as to the successive steps to be taken thereafter.
- 56.** When a firm uses an external consultant to conduct 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.

#### Engagement Quality Control Review

- 58577.** **The firm should establish policies and procedures whichthat:**
- (a) **Require the performance of 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 for the purpose of determining whether an engagement quality control review should be performed in each instance;
- ~~(c)~~ Require the performance of an engagement quality control review for all audit, assurance and related services engagements meeting the criteria established in compliance with (b) above;
- ~~(ed)~~ Require the completion of the engagement quality control review (including resolution to the satisfaction of the engagement quality control reviewer of issues raised) before the issuance of the practitioner's report; and
- ~~(de)~~ Set out:
  - (i) The nature and extent of an engagement quality control review;
  - (ii) Criteria for the eligibility of engagement quality control reviewers; and
  - (iii) Documentation requirements for an engagement quality control review.

~~59588.~~ The firm considers whether engagements other than audits of financial statements of listed entities require 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 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.

#### NATURE AND EXTENT OF THE ENGAGEMENT QUALITY CONTROL REVIEW

~~60599.~~ An engagement quality control review should include an objective evaluation of:

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

~~616060.~~ The engagement quality control reviewer's work is designed to provide a basis to conclude 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 professional standards and applicable regulatory and legal requirements or that the practitioner's report was not appropriate in the circumstances.

~~62611.~~ 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, in particular, consideration of whether the practitioner's report is appropriate. It also involves, and, to the extent considered necessary by the engagement quality control reviewer,



a review of selected working papers. The extent of the 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 engagement quality control review includes consideration of the following:

- The engagement team's evaluation of the firm's independence in relation to the specific engagement.
- The significant risks identified and the responses to those risks.
- The judgments made, particularly relating to significant risks.
- Whether appropriate consultation has taken place on difficult or contentious matters and the conclusions arising from those consultations.
- The significance and disposition of misstatements.
- Whether appropriate matters have been considered for reporting to management and those charged with governance.
- Whether the documentation reviewed reflects the work performed and supports the conclusions drawn as a result of that work.

#### CRITERIA FOR THE ELIGIBILITY OF ENGAGEMENT QUALITY CONTROL REVIEWERS

~~63622~~. An engagement quality control reviewer is a partner, other person in the firm, or suitably qualified external consultant with sufficient and appropriate experience and authority to perform an engagement quality control review.

~~64633~~. The firm's policies and procedures on the eligibility of engagement quality control reviewers address:

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

~~65644~~. The firm's policies and procedures on the technical qualifications of engagement quality control reviewers address the technical expertise and experience necessary to perform the role. The determination of what constitutes sufficient and appropriate technical expertise and experience depends on 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 on financial statements audits of listed entities.

~~66655~~. Where sole practitioners and small firms identify engagements requiring engagement quality control review, a suitably qualified and experienced external consultant may be engaged to conduct that review. Alternatively, some sole practitioners and small firms may wish to establish arrangements with other firms to facilitate engagement quality control reviews. When using an external consultant, or the services of an engagement quality control reviewer obtained from another firm, appropriate arrangements are made to safeguard client confidentiality. Such arrangements are set out in writing.

~~67666~~. The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer and the reviewer's independence from the engagement team. For example, the engagement quality control reviewer:

- (a) Is selected by a partner or other person with sufficient and appropriate experience and authority in the firm other than the engagement partner;
- ~~(ab)~~ Does not otherwise participate in the performance of the engagement;
- ~~(bc)~~ Does not make decisions on behalf of the engagement team;
- ~~(ed)~~ Did not 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 covered by the current engagement; or
- ~~(de)~~ Does not act as engagement partner 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 period immediately following acting as engagement quality control reviewer, or in the case of an audit of financial statements of a listed entity, for a period of twenty four months following acting as engagement quality control reviewer.

~~68677~~. The engagement quality control reviewer may be consulted by the engagement partner during the course of the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform 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.

~~69688~~. 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 where the engagement quality control reviewer has undertaken the engagement quality control review of a client for several years.

#### TIMING OF THE ENGAGEMENT QUALITY CONTROL REVIEW

~~70699~~. The engagement quality control reviewer conducts the review in a timely manner throughout the engagement 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.

~~717070~~. Where the engagement quality control reviewer makes recommendations which that 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 ENGAGEMENT QUALITY CONTROL REVIEW

~~72711~~. Policies and procedures on documentation of the engagement quality control review include evidencing:

- (a) The procedures required by the firm's policies on engagement quality control review have been performed;

- (b) The completion of the engagement quality control review before the issuance of the practitioner's report; and
- (c) That there are no unresolved matters that have come to the attention of the engagement quality control reviewer that would cause the engagement quality control reviewer to believe that the engagement was not performed in accordance with professional standards and applicable regulatory and legal requirements.

### **Complaints and Allegations.**

**722. The firm should establish policies and procedures that provide it with reasonable assurance that it deals appropriately with complaints and allegations about the firm's quality of work performed by the firm in its practices in the areas of audit, assurance and related services.**

733. Complaints and allegations may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. ~~be made about a variety of matters including the quality of work and ethical issues.~~ They may be received by engagement team members or other firm personnel.

744. The firm investigates complaints and allegations under the supervision of a partner not otherwise involved and takes appropriate action to respond. Complaints, allegations and the responses to them are documented.

### **Monitoring**

**73755. The firm should establish policies and procedures to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and complied with in practice.**

74766. The firm entrusts responsibility for monitoring to a partner or other person with sufficient and appropriate experience and authority in the firm to assume that responsibility. Monitoring of the firm's system of quality control is performed by competent individuals and includes both an ongoing consideration and evaluation of the elements of the system of quality control as set out in paragraph 6 above and the periodic inspection of a selection of completed engagements.

777. Ongoing consideration and evaluation of the system of quality control includes following:

- Analysis and assessment of:
  - New developments in professional standards and applicable regulatory and legal requirements, and the manner in which they are reflected in the firm's policies and procedures where appropriate;
  - Results of independence confirmations;
  - Continuing professional development and other training or education undertaken by personnel; and
  - Decisions related to acceptance and continuance of client relationships and specific engagements.
- Determination of corrective actions to be taken and improvements to be made in the system.

- Communication to appropriate firm personnel of weaknesses identified in the system or in the level of understanding or compliance therewith.
- Follow-up by appropriate firm personnel such that necessary modifications are made to the quality control policies and procedures on a timely basis.

~~75788. The monitoring of the firm's system of quality control, while ongoing, is reported on at least annually.~~ The inspection of selected individual engagements, is performed on a cyclical basis. An inspection cycle ordinarily spans no more than three years. The selection of engagements for inspection includes at least one engagement for each engagement partner at least once in every inspection cycle. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, including the following:

- The size of the firm.
- The number and geographical location of offices.
- The results of previous monitoring procedures.
- 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.

~~76799.~~ The inspection of individual engagements includes the selection of engagements, some of which are selected without prior notification to the engagement team. Individual engagements are inspected by individuals who were not involved in performing either the engagement or, where applicable, the engagement quality control review. In determining the scope of the inspections the firm may, where appropriate, have regard to the scope or conclusions of an external monitoring program.

~~778080.~~ Small firms and sole practitioners may wish to use the services of a suitably qualified external consultant or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, they may wish to ~~may wish to~~ establish arrangements ~~to form network corporations in order to~~ share resources with other appropriate organizations and thereby facilitate monitoring activities.

~~78811.~~ The purpose of monitoring compliance with quality control policies and procedures for completed engagements is to provide an evaluation of:

- (a) Adherence to professional standards and applicable regulatory and legal requirements;
- (b) Whether the practitioner's reports that are issued by the firm or engagement partners are appropriate in the circumstances; and
- (c) Whether the firm's quality control policies and procedures have been appropriately applied.

~~79822.~~ The firm evaluates the impact-effect of significant deficiencies noted as a result of the monitoring process and determines whether they are either:

- (a) Instances ~~which that~~ do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional

standards and applicable regulatory and legal requirements, and that the practitioner's reports issued by the firm or engagement partners are appropriate in the circumstances; or

- (b) Deficiencies ~~which~~that may indicate that further investigation and corrective action may be appropriate.

~~80833~~. The firm's evaluation of deficiencies ordinarily will ~~ordinarily~~ 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, and disciplinary action against those who ~~repeatedly~~ fail to comply with the standards policies and procedures of the firm, especially those who do so repeatedly.

~~81844~~. Where the firm identifies deficiencies relevant to a specific engagement, these are communicated to the engagement partner and other appropriate individuals within the firm, together with appropriate~~required~~ remedial actions ~~where appropriate~~.

~~82855~~. Where deficiencies are identified in that part of the firm's system of quality control comprising policies and procedures regarding independence, the firm communicates these findings to appropriate firm personnel promptly, and takes immediate steps to remedy the situation.

~~83866~~. 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, and applicable regulatory and legal requirements. It also may ~~also~~ wish to obtain legal advice.

~~8787~~. 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 professional standards and applicable regulatory and legal requirements;
  - (ii) Whether the practitioner's reports that are issued by the firm or engagement partners are appropriate in the circumstances; and
  - (iii) Whether the firm's quality control policies and procedures have been appropriately applied; and
- (d) ~~details~~ Identifies the deficiencies noted, evaluates their ~~impact~~effect, sets out the basis for ~~determination~~determining as to whether further action is necessary and details that action where applicable.

~~84878~~. The firm communicates information on the results of the monitoring process of its system of quality control on at least an annual basis. The information is communicated to the chief

executive officer of the firm (or equivalent), engagement partners and other staff as appropriate. It includes the following:

- 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.

889. Some firms may operate a system of quality control throughout as part of a network and may apply some or all of their monitoring procedures on a network basis. Where firms within such networks place reliance on such systems, appropriate communication takes place on the results of the monitoring process on at least an annual basis.

### Documentation

858990. The firm should establish policies and procedures requiring appropriate documentation to ~~demonstrate compliance with~~ provide evidence of the operation of each element of its system of quality control.

869091. 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 evidencing the operation of each of the elements of the system of quality control include the following:

- The size of a firm and 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.

88922. Documentation is retained for a period of time sufficient to permit an evaluation enable those performing monitoring procedures to evaluate of the extent of the firm's compliance with its system of quality control by those performing monitoring procedures or as required by applicable law or regulation.

### Effective Date

93389. This ISQC is effective ~~as of beginning 31 July 2004~~ 1 January 2005.

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