Agenda Item 5-A

PROPOSED INTERNATIONAL STANDARD ON QUALITY CONTROL 1 (REDRAFTED)

QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

(Effective as of [date])*

CONTENTS

	Paragraph
Introduction	
Scope of this ISQC…….	1-2
Authority of this ISQC……	3-8
Effective Date ……	9
Objective ……..	10
Definitions ……	11
Requirements	
Applying, and Complying with, Relevant Requirements……..	12-16
Elements of a System of Quality Control……..	17-19
Leadership Responsibilities for Quality within the Firm ……..…	20-24
Relevant Ethical Requirements ……..	25-30
Acceptance and Continuance of Client Relationships and Specific Engagements……	31-35
Human Resources …….	36-38
Engagement Performance …….	39-58
Monitoring ……	59-69
Documentation……	70-71
Application and Other Explanatory Material	
Leadership Responsibilities for Quality within the Firm ……..	A1-A3
Relevant Ethical Requirements …….	A4-A13
Acceptance and Continuance of Client Relationships and Specific Engagements……	A14-A19
Human Resources …….	A20-A27
Engagement Performance …….	A28-A56

* See footnote 1.

Monitoring …… A57-A64
Documentation …….. A65-A66

Introduction

Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and for other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.

2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. [Proposed] International Standards on Auditing (ISA) 220 (Redrafted), "Quality Control for Audit Engagements," for example, deals with quality control procedures for audits of financial statements.

Authority of this ISQC

3. This ISQC applies to all firms in respect of audits and reviews of financial information, and other assurance and related services engagements. The nature of the policies and procedures developed by individual firms to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.

4. This ISQC contains the objective for the firm in following the ISQC, and requirements designed to enable the firm to meet the stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context essential to a proper understanding of the ISQC, and definitions.

5. The objective provides the context in which the requirements of this ISQC are set, and is intended to assist the firm in:

   - Understanding what needs to be accomplished; and
   - Deciding what more, if anything, needs to be done to achieve the objective.

6. The requirements of this ISQC are expressed using the word "shall."

7. The application and other explanatory material is an integral part of this ISQC, as it provides further explanation of, and guidance for carrying out, the requirements, along with background information on the matters addressed in this ISQC. It may include examples of policies and procedures, some of which the firm may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement. Where appropriate, additional considerations specific to the public sector audit organization or smaller practices are included within the application and other explanatory material.

8. This ISQC includes, under the heading 'Definitions', a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law,

regulation or otherwise. The Glossary of Terms relating to International Standards issued by the International Auditing and Assurance Standards Board in the *Handbook of International Auditing, Assurance, and Ethics Pronouncements* published by IFAC contains a complete listing of terms defined in the ISQC. It also includes descriptions of other terms found in the ISQC to assist in common and consistent interpretation and translation.

Effective Date

9. Systems of quality control in compliance with this ISQC are required to be established by [date].[1]

Objective

10. The objective of the firm in following this ISQC is to establish a system of quality control to provide it with reasonable assurance that:

    (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and

    (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

Definitions

11. In this ISQC, the following terms have the meanings attributed below:

    (a) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used).

    (b) Engagement partner[2] – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

    (c) Engagement quality control review – A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.

    (d) Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.

---

1 This effective date is provisional but will not be earlier than December 15, 2008.

2 "Engagement partner," "partner," and "firm," should be read as referring to their public sector equivalents.

(e) Engagement team – [All partners and staff performing the engagement, including those who are experts in a field other than accounting or auditing, and any other person performing accounting or auditing tasks on the engagement regardless of their contractual relationship with the firm.][3]

(f) Firm – A sole practitioner, partnership, corporation or other entity of professional accountants.

(g) Inspection – In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

(h) 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.

(i) Monitoring – A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.

(j) Network firm[*] – A firm or entity that belongs to a network.

(k) Network* – A larger structure:

  (i) That is aimed at cooperation, and

  (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

(l) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(m) Personnel – Partners and staff.

(n) Professional standards – IAASB Engagement Standards, as defined in the IAASB's "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," and relevant ethical requirements.

(o) Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance.

(p) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject,

---

[3] This definition is subject to further consideration by the IAASB and the International Ethics Standards Board for Accountants.

[*] As defined in the IFAC *Code of Ethics for Professional Accountants* issued in July 1996 and revised in January 1998, November 2001, June 2004 and July 2006.

which ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC Code) related to an audit of financial statements together with national requirements that are more restrictive.

(q) Staff – Professionals, other than partners, including any experts the firm employs.

(r) Suitably qualified external person – An individual outside the firm with the capabilities and competence 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 audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.

Requirements

Applying, and Complying with, Relevant Requirements

12. The firm shall consider the entire text of this ISQC to understand its requirements.

13. The firm shall use the objective stated in this ISQC to judge whether, having complied with the requirements of this ISQC, it is necessary to establish further policies and procedures in pursuance of the objective. Proper application of requirements will ordinarily provide a sufficient basis for achievement of the objective of this ISQC. However, this ISQC cannot anticipate all circumstances that may arise.

14. Subject to paragraph 15, the firm shall comply with the requirements of this ISQC in all cases where the requirements are relevant in providing services in respect of audits and reviews of financial statements, and other assurance and related services engagements.

15. In exceptional circumstances, the firm may judge it necessary to depart from a relevant requirement to achieve the aim of that requirement. In such circumstances, the firm shall establish alternative quality control procedures to achieve the aim of that requirement, and document how they achieve that aim, and, unless otherwise clear, the reasons for the departure. The need for the firm to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be established and, in the specific circumstances of the firm, that procedure would be ineffective. The firm need not apply a requirement that is not relevant; this does not constitute a departure from the requirement.

16. The firm shall apply the requirements in the context of the other material included in this ISQC.

Elements of a System of Quality Control

17. The firm shall establish a system of quality control that includes policies and procedures that address each of the following elements:

(a) Leadership responsibilities for quality within the firm.

(b) Relevant ethical requirements.

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

(d) Human resources.

(e) Engagement performance.

(f) Monitoring.

18. The firm's quality control policies and procedures shall be:

(a) Documented and

(b) Communicated to the firm's personnel.

Such communication shall describe the quality control policies and procedures and the objectives they are designed to achieve, and include the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures.

19. In recognition of the importance of obtaining feedback on its quality control system from its personnel, the firm shall encourage its personnel to communicate their views or concerns on quality control matters.

Leadership Responsibilities for Quality within the Firm

20. The firm shall establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures shall require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control. (Ref: Para. A1)

21. Such policies and procedures shall also address performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality.

22. The firm shall assign management responsibilities so that commercial considerations do not override the quality of work performed. (Ref: Para. A2)

23. The firm shall devote sufficient resources for the development, documentation and support of its quality control policies and procedures.

24. Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners shall have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A3)

Relevant Ethical Requirements

25. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: Para. A4-A6)

Independence

26. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel), maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to:

    (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and

    (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.

27. Such policies and procedures shall require:

    (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;

    (b) Personnel and, where applicable, others subject to independence requirements, to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and

    (c) The accumulation and communication of relevant information to appropriate personnel so that:

        (i) The firm and its personnel can readily determine whether they satisfy independence requirements;

        (ii) The firm can maintain and update its records relating to independence; and

        (iii) The firm can take appropriate action regarding identified threats to independence.

28. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:

    (a) All who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware;

    (b) The firm to promptly communicate identified breaches of these policies and procedures to:

        (i) The engagement partner who, with the firm, needs to address the breach; and

        (ii) Other relevant personnel in the firm and those subject to the

independence requirements who need to take appropriate action; and

(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

29. At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A7)

30. The firm shall establish policies and procedures:

(a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and

(b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period, unless prohibited by law or regulation, in compliance with relevant ethical requirements. (Ref: Para. A8-A13)

Acceptance and Continuance of Client Relationships and Specific Engagements

31. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

(a) Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity; (Ref: Para. A14)

(b) Is competent to perform the engagement and has the capabilities, time and resources to do so; (Ref: Para. A15) and

(c) Can comply with relevant ethical requirements.

32. The firm shall obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Such information shall include the identity and business reputation of the client's principal owners, key management, and those charged with its governance. (Ref: Para. A16-A17)

33. Where a potential conflict is identified in accepting an engagement from a new or an existing client, the firm shall determine whether it is appropriate to accept the engagement.

34. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it shall document how the issues were resolved.

35. Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship shall include consideration of:

    (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm 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 or from both the engagement and the client relationship. (Ref: Para. A18-A19)

Human Resources

36. The firm shall establish policies and procedures regarding assessment of its staff's capabilities and competence designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to:

    (a) Perform its engagements in accordance with professional standards and regulatory and legal requirements; and

    (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A20-A25)

Assignment of Engagement Teams

37. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:

    (a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;

    (b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and

    (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A26)

38. The firm shall also establish policies and procedures to assign appropriate staff with the necessary capabilities, competence and time to:

    (a) Perform engagements in accordance with professional standards and regulatory and legal requirements; and

    (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A27)

Engagement Performance

39. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are consistently performed in accordance with professional standards and regulatory and legal requirements, and that the

firm or the engagement partner issue reports that are appropriate in the circumstances. Required policies and procedures shall address:

(a) Engagement performance; (Ref: Para. A28-A29)

(b) Supervision responsibilities; (Ref: Para. A30) and

(c) Review responsibilities.

40. Review responsibility policies and procedures shall be determined on the basis that the work of a less experienced team member is reviewed on a timely basis by a more experienced engagement team member. (Ref: Para. A31)

Consultation

41. The firm shall establish policies and procedures designed 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) The nature and scope of such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and

(d) Conclusions resulting from consultations are documented and implemented. (Ref: Para. A32-A36)

Engagement Quality Control Review

42. The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:

(a) Require an engagement quality control review for all audits of financial statements of listed entities;

(b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; (Ref: Para. A37)

(c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b); and

(d) Require that the report not be issued until the completion of the engagement quality control review.

43. The firm's policies and procedures shall require the engagement partner to remain responsible for the engagement and its performance, notwithstanding involvement of the engagement quality control reviewer.

Nature, Timing and Extent of an Engagement Quality Control Review

44. The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. (Ref: Para. A38-A40)

45. An engagement quality control review shall include an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report.

46. The engagement quality control review shall include a review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions they reached.

47. The engagement quality control review shall also include discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and consideration of whether the report is appropriate. The engagement quality control review shall include consideration of the following:

    (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement;

    (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and

    (c) Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.

48. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances.

49. The firm's policies and procedures shall require that the firm's processes for dealing with differences of opinion are followed where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction.

Criteria for the Eligibility of Engagement Quality Control Reviewers

50. The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:

    (a) The technical qualifications required to perform the role, including the necessary experience and authority; (Ref: Para. A41)

    (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity; (Ref: Para. A42-A44) and

    (c) Addressing other considerations that would threaten the reviewer's objectivity.

51. The firm's policies and procedures, designed to maintain the objectivity of the engagement quality control reviewer, shall require that the engagement quality control reviewer:

(a) Is not selected by the engagement partner;

(b) Does not otherwise participate in the engagement during the period of review; and

(c) Does not make decisions for the engagement team.

52. The firm's policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.

Documentation of the Engagement Quality Control Review

53. The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:

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

(b) The engagement quality control review has been completed before the report is issued; and

(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Differences of Opinion

54. The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A45-A46)

55. Such policies and procedures shall require that:

(a) Conclusions reached be documented and implemented; and

(b) The report not be issued until the matter is resolved.

Engagement Documentation

Completion of the Assembly of Final Engagement Files

56. The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. (Ref: Para. A47-A48)

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

57. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A49-A52)

Retention of Engagement Documentation

58. The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. (Ref: Para. A53-A55)

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures

59. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures shall:

    (a) Include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements;

    (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and.

    (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (Ref: Para. A57-A58)

60. The firm's policies and procedures shall require inspection of a selection of completed engagements on a cyclical basis, such that engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle spanning no more than three years. (Ref: Para. A59-A61)

Communicating Deficiencies

61. The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:

    (a) Instances 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 regulatory and legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or

    (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

62. The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: Para. A62)

63. The firm's evaluation of each type of deficiency shall result in recommendations for one or more of the following:

    (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel;

(b) The communication of the findings to those responsible for training and professional development;

(c) Changes to the quality control policies and procedures; and

(d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.

64. Where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm shall determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements. It shall also consider obtaining legal advice.

65. At least annually, the firm shall communicate the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. Such communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following:

(a) A description of the monitoring procedures performed.

(b) The conclusions drawn from the monitoring procedures.

(c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

66. Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system, the firm's policies and procedures shall require that:

(a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and

(b) The network communicate promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken,

in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.

Complaints and Allegations

67. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:

(a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements;

(b) Allegations of non-compliance with the firm's system of quality control; and

(c) Deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, as identified during the investigations into complaints and allegations.

As part of this process, the firm shall establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (Ref: Para. A63-A64)

68. The firm shall require that investigations of complaints and allegations in accordance with established policies and procedures be supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement. The firm shall involve legal counsel as necessary.

69. The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

Documentation

70. The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para. A65-A66)

71. The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

Application and Other Explanatory Material

Leadership Responsibilities for Quality within the Firm (Ref: Para. 20-24)

A1. The firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasize the firm's quality control policies and procedures, and the requirement to:

(a) Perform work that complies with professional standards and regulatory and legal requirements; and

(b) Issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognizes and rewards high quality work. These actions and messages may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm's internal

documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

A2. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs.

A3. Sufficient and appropriate experience and ability enables the responsible person or persons to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

Relevant Ethical Requirements (Ref: Para. 25-28)

A4. The IFAC Code establishes the fundamental principles of professional ethics, which include:

(a) Integrity;

(b) Objectivity;

(c) Professional competence and due care;

(d) Confidentiality; and

(e) Professional behavior.

A5. Part B of 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.

A6. The fundamental principles are reinforced in particular by:

- The leadership of the firm;
- Education and training;
- Monitoring; and
- A process for dealing with non-compliance.

Independence for assurance engagements is so significant that it is addressed separately in this ISQC, paragraphs 23 to 28.

Independence

Written Confirmation (Ref: Para. 29)

A7. The purpose of obtaining confirmation in paper or electronic form and taking appropriate action on information indicating non-compliance, is to demonstrate the importance that the firm attaches to independence and to make the issue current for, and visible to, its personnel.

Familiarity Threat (Ref: Para. 30)

A8. The IFAC Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such a threat.

A9. In determining appropriate criteria to address a familiarity threat, the firm may consider such matters as:

- The nature of the engagement, including the extent to which it involves a matter of public interest; and
- The length of service of the senior personnel on the engagement.

Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.

A10. The IFAC Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IFAC Code requires the rotation of the engagement partner after a pre-defined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.

Considerations specific to public sector audit organizations

A11. The independence of public sector auditors may be protected by statutory measures, with the consequence that certain of the threats to independence of the nature envisaged by the material in paragraphs 23-28 and A8-A10 are unlikely to occur. However, threats such as self-review, familiarity and intimidation may still exist regardless of any statutory measures designed to protect independence. Public sector audit organizations consider how to appropriately address and respond to any such identified threats.

A12. Listed entities as referred to in paragraphs 28 and A10 are not common in the public sector, however, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders.

A13. In the public sector, legislation may establish the appointments and terms of office of the Auditor General or senior staff with engagement partner responsibility. As a result, it may not be possible to strictly comply with the engagement partner rotation requirements envisaged for listed entities. Nonetheless, for public sector entities considered comparable to listed entities, it may be in the public interest for public sector audit organizations to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility.

Acceptance and Continuance of Client Relationships and Specific Engagements (Ref: Para. 31-35)

A14. With regard to the integrity of a client, matters to consider include, for example:

- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as

aggressive interpretation of accounting standards and the internal control environment.

- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.

The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

A15. Reviewing partner and staff profiles in light of the specific requirements of the engagement aids the firm in considering whether it has the capabilities, competence, time, and resources to undertake a new engagement from a new or an existing client. Matters the firm considers in accepting or continuing the client engagement include, for example, whether:

- Firm personnel have knowledge of relevant industries or subject matters;
- Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- The firm has sufficient personnel with the necessary capabilities and competence;
- Experts are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm is able to complete the engagement within the reporting deadline.

A16. Sources of information on such matters obtained by the firm may include:

- Communications with existing or previous providers of professional accountancy services to the client in accordance with relevant ethical requirements, and discussions with other third parties.
- Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

A17. Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship. For example, a client may

have started to expand its business operations into an area where the firm does not possess the necessary knowledge or expertise.

A18. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant matters, consultations, conclusions and the basis for the conclusions.

Considerations Specific to Public Sector Audit Organizations

A19. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and specific engagements as set out paragraphs 31-35 and A14-A18 may not be relevant. Nonetheless, establishing policies and procedures as described may provide valuable information to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Human Resources (Ref: Para. 36)

A20. Policies and procedures related to human resources may address the following personnel issues:

- Recruitment;
- Performance evaluation;
- Capabilities;
- Competence;
- Career development;
- Promotion;
- Compensation; and
- The estimation of personnel needs.

Effective recruitment processes and procedures help the firm select individuals of integrity who have the capacity to develop the capabilities and competence

necessary to perform the firm's work and possess the appropriate characteristics to enable them to perform competently.

A21. Capabilities and competence are developed through a variety of methods, including the following:

- Professional education.
- Continuing professional development, including training.
- Work experience.
- Coaching by more experienced staff, for example, other members of the engagement team.
- Independence education for personnel who are required to be independent.

A22. The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence.

A23. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a firm may take in developing and maintaining competence and commitment to ethical principles include:

- Making personnel aware of the firm's expectations regarding performance and ethical principles;
- Providing personnel with evaluation of, and counseling on, performance, progress and career development; and
- Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.

A24. The size and circumstances of the firm will influence the structure of the firm's performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their personnel.

Considerations Specific to Smaller Practices

A25. The firm may use a suitably qualified external person when internal technical and training resources are unavailable, or for any other reason.

Assignment of Engagement Teams (Ref: Para. 37-38)

A26. Policies and procedures may include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

A27. When assigning engagement teams, and in determining the level of supervision required, the firm considers, for example, the engagement team's:

- Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and regulatory and legal requirements.
- Technical knowledge and expertise, including knowledge of relevant information technology.
- Knowledge of relevant industries in which the clients operate.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

Engagement Performance

Consistency in the Quality of Engagement Performance (Ref: Para. 39(a))

A28. The firm promotes consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. Matters addressed may include the following:

- How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.
- Processes for complying with applicable engagement standards.
- 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 work performed and of the timing and extent of the review.
- Processes to keep all policies and procedures current.

A29. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

Supervision (Ref: Para. 39(b))

A30. Engagement supervision policies cover matters such as:

- Tracking the progress of the engagement.
- Considering the capabilities and competence 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 matters arising during the engagement, considering their significance and modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

Review (Ref: Para. 40)

A31. A review consists of consideration whether, for example:

- The work has been performed in accordance with professional standards and regulatory and legal requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Consultation (Ref: Para. 41)

A32. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.

A33. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the firm's policies and procedures helps to promote a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.

A34. Effective consultation on significant technical, ethical and other matters within the firm, or where applicable, outside the firm can be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience,

and when conclusions resulting from consultations are appropriately documented and implemented.

A35. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The issue on which consultation was sought; and

- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Considerations Specific to Smaller Practices

A36. A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by:

- Other firms;
- Professional and regulatory bodies; or
- Commercial organizations that provide relevant quality control services.

Before contracting for such services, consideration of the qualifications of the external provider helps the firm to determine whether the external provider is suitably qualified for that purpose.

Engagement Quality Control Review (Ref: Para. 42(b))

A37. Criteria to consider when determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review include, for example:

- The nature of the engagement, including the extent to which it involves a matter of public interest.
- The identification of unusual circumstances or risks in an engagement or class of engagements.
- Whether laws or regulations require an engagement quality control review.

Nature, Timing and Extent of the Engagement Quality Control Review (Ref: Para. 44-49)

A38. Matters of significant judgment include, for example:

- Significant risks identified during the engagement and the responses to those risks.
- Judgments made, particularly with respect to materiality and significant risks.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

A39. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the reviewer's satisfaction before the report is issued.

Considerations specific to public sector audit organizations

A40. Although not referred to as listed entities, as described in paragraph A12, certain public sector entities may be of sufficient significance to warrant performance of an engagement quality control review.

Criteria for the Eligibility of Engagement Quality Control Reviewers (Ref: Para. 50-52)

A41. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of a listed entity would be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.

A42. The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role. However, when the nature and extent of the consultations become significant the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

Considerations specific to smaller practices

A43. Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the requirements in paragraphs 49-51 and guidance in paragraphs A41-A42 apply.

Considerations specific to public sector audit organizations

A44. In the public sector, a single statutorily appointed Auditor General, or other suitably qualified person appointed on behalf of the Auditor General, may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

Differences of Opinion (Ref: Para. 54-55)

A45. Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.

A46. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Documentation

Completion of the Assembly of Final Engagement Files (Ref: Para. 56)

A47. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 55 requires the firm to establish policies and procedures related to time limits that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.

A48. Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation (Ref: Para. 57)

A49. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

A50. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid unauthorized alteration or loss of engagement documentation may include those that:

- Enable the determination of when and by whom engagement documentation was created, changed or reviewed.
- Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet;
- Prevent unauthorized changes to the engagement documentation; and
- Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

A51. Controls that the firm designs and implements to maintain the confidentiality, safe

custody, integrity, accessibility and retrievability of engagement documentation may include:

- The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users.
- Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
- Procedures for properly distributing engagement documentation to the team members at the start of the engagement, processing it during engagement, and collating it at the end of engagement.
- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

A52. For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In such cases, the firm's procedures designed to maintain the integrity, accessibility, and retrievability of the documentation would include requiring the engagement teams to:

- Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and
- Enable the scanned copies to be retrieved and printed as necessary.

There may be legal, regulatory or other reasons for a firm to retain original paper documentation that has been scanned.

Retention of Engagement Documentation (Ref: Para. 58)

A53. The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.

A54. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.

A55. Procedures that the firm adopts for retention of engagement documentation include those that enable the requirements of paragraph 54 to be met during the retention period, for example to:

- Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time.
- Provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed.
- Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

Ownership of Engagement Documentation

A56. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures (Ref: Para. 59-60)

A57. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:

- Adherence to professional standards and regulatory and legal requirements;
- Whether the quality control system has been appropriately designed and effectively implemented; and
- Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.

A58. Ongoing consideration and evaluation of the system of quality control may include matters such as the following:

- Analysis of:
  - New developments in professional standards and regulatory and legal requirements, and how they are reflected in the firm's policies and procedures where appropriate;
  - Written confirmation of compliance with policies and procedures on independence;
  - Continuing professional development, including training; 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, including the provision of feedback into the firm's policies and procedures relating to education and training.

- Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
- Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.

A59. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following:

- The size of the firm.
- The number and geographical location of offices.
- The results of previous monitoring procedures.
- The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them).
- The nature and complexity of the firm's practice and organization.
- The risks associated with the firm's clients and specific engagements.

A60. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the firm may take into account the scope or conclusions of an independent external inspection program. However, an independent external inspection program does not act as a substitute for the firm's own internal monitoring program.

Considerations Specific to Smaller Practices

A61. In the case of small firms and sole practitioners, monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the firm's quality control policies and procedures. A firm with a limited number of persons may find it beneficial to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, they may wish to establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.

Communicating Deficiencies (Ref: Para. 61-66)

A62. The reporting of identified deficiencies to individuals other than the relevant engagement partners need not include an identification of the specific engagements concerned, although there may be cases where such identification may be necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.

Complaints and Allegations (Ref: Para. 67-69)

A63. Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.

Considerations Specific to Smaller Practices

A64. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation.

Documentation (Ref: Para. 70-71)

A65. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgment and depends on a number of factors, including:

- The size of the firm and the number of offices.
- The nature and complexity of the firm's practice and organization.

For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller firms may use more informal methods such as manual notes, checklists and forms.

A66. Appropriate documentation relating to monitoring includes, for example:

- Monitoring procedures, including the procedure for selecting completed engagements to be inspected;
- A record of the evaluation of:
  - (i) Adherence to professional standards and regulatory and legal requirements;
  - (ii) Whether the quality control system has been appropriately designed and effectively implemented; and
  - (iii) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances; and
- Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary.