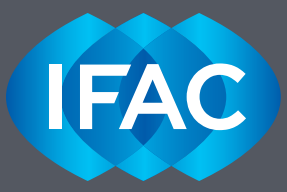
Guide to Quality Control for Small- and Medium-Sized Practices

Third Edition



International Federation of Accountants

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This Implementation Guide was prepared by the Small and Medium Practices Committee of the International Federation of Accountants (IFAC). The committee represents the interests of professional accountants operating in small- and medium-sized practices and other professional accountants who provide services to small- and medium-sized entities.

This publication may be downloaded free of charge from the Publications and Resources area of the IFAC website: http://web.ifac.org/publications. The approved text is published in the English language.

The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

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Preface

Welcome to the third edition of the IFAC SMP Committee's *Guide to Quality Control for Small- and Medium-Sized Practices*.

In this edition, we have taken the opportunity to revise the Guide's two sample manuals to more clearly delineate their alignment with International Standard on Quality Control (ISQC) 1, as well as to make minor presentational improvements. Mindful, however, that many users may be in the process of translating the Guide, we have endeavored to keep the revisions in this edition to a minimum.

First released in 2009 and developed with CGA-Canada, the Guide is designed to promote consistent application of ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. It offers a practical "how-to" approach that practitioners may use when developing their firms' quality control system. Ultimately, it should help SMPs provide high-quality service to their clients, enabling them to better serve SMEs and, in turn, the wider public interest.

Please note that the Guide provides non-authoritative guidance on ISQC 1. It is not to be used as a substitute for reading ISQC 1, but is intended to support implementation of the standard by explaining and illustrating the steps and procedures necessary to comply with ISQC 1.

In order to help member bodies maximize the use of both this Guide and its sister publication, the *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities*, the SMP Committee is developing a companion guide, along with additional materials designed to support the use of the Guides for education and training purposes. The companion guide will include suggestions on how IFAC member bodies and firms may make best use of the Guides to suit their own needs and jurisdictions.

Finally, the IFAC SMP Committee welcomes readers to visit its International Center for Small and Medium Practices (www.ifac.org/smp) which, in addition to the Guides, hosts a wide collection of free publications and resources.

Sylvie Voghel
Chair, IFAC SMP Committee
August 2011

Request for Comments

This is the third edition of the Guide. While we consider the Guide to be of high quality and useful in its present form, like any publication it can be improved. Hence, we are committed to updating the Guide on a regular basis to ensure it reflects current standards and is as useful as possible.

We welcome comments from national standard setters, IFAC member bodies, practitioners, and others. In particular, we welcome views on the following questions.

1. How do you use the Guide? For example, do you use it as a basis for training and/or as a practical reference guide, or in some other way?

2. Do you consider the Guide to be responsive to the key firm level issues of quality control for small- and medium-sized practices?

3. Do you find the Guide easy to navigate? If not, can you suggest how navigation can be improved?

4. In what other ways do you think the Guide can be made more useful?

5. Are you aware of any derivative products—such as training materials, forms, checklists, and programs—that have been developed based on the Guide? If so, please provide details.

Please submit your comments to Paul Thompson, Deputy Director at:

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Disclaimer

The Guide is designed to assist practitioners in the implementation of the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* for small- and medium-sized practices, but is not intended to be a substitute for the ISQC 1 itself. Furthermore, a practitioner should utilize the Guide in light of his or her professional judgment and the facts and circumstances involved in their firm and each particular engagement. IFAC disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Guide.

How to Use the Guide

The purpose of the Guide is to provide practical guidance to implementing a system of quality control for small- and medium-sized practices (SMPs). However, no material in the Guide should be used as a substitute for:

- **Reading ISQC 1**

  It is assumed that practitioners already have knowledge of the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.* This standard, redrafted under the Clarity project, is contained within the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, which can be downloaded free of charge from the IFAC online publications and resources site at http://web.ifac.org/publications. ISQC 1 and all of the other clarified standards as well as frequently asked questions (FAQs) and other support materials can also be obtained from the Clarity Center at http://web.ifac.org/clarity-center/index.

- **Use of Professional Judgment**

  Professional judgment is required based on the particular facts and circumstances involved in the firm and each particular engagement and where interpretation of a particular standard is required.

While it is expected that SMPs will be the principal user group, the Guide may help other practitioners to implement the requirements for quality control on audits and reviews of financial statements, and other assurance and related service engagements.

The Guide can be used to:

- Assist a firm in developing a system of quality control;
- Promote consistent application of the quality control requirements within audit, review, and other assurance and related services engagements; and
- Provide a reference document for training within the firm.

The Guide often refers to an engagement team, which implies that more than one person is involved in conducting the engagement. However, the same general principles also apply to engagements performed exclusively by one person (the practitioner).

Reproduction, Translation, and Adaptation of the Guide

Content and Organization

Summary of Content

The following chart summarizes the content in each part of the Guide.

Chapter	Title	Purpose
1	Leadership Responsibilities for Quality Within the Firm	To describe the firm's responsibilities to promote an internal culture focused on quality control
2	Relevant Ethical Requirements	To provide guidance on the fundamental principles which define professional ethics
3	Acceptance and Continuance of Client Relationships and Specific Engagements	To provide guidance on the establishment of appropriate acceptance and continuance policies and procedures
4	Human Resources	To provide guidance on the human resource components of effective quality control policies and procedures
5	Engagement Performance	To provide guidance on the elements involved in engagement performance, highlighting the role of the engagement partner, planning, supervision and review, consultation, resolution of differences of opinion, and performance of engagement quality control review
6	Monitoring	To provide guidance on the monitoring of the firm's policies and procedures relating to the system of quality control, including the firm's monitoring program, inspection procedures, the monitor's report, addressing and removing deficiencies, and responding to complaints and allegations
7	Documentation	To provide guidance on the firm's requirements for documentation, both at the engagement level (including engagement quality control review) and for the firm's system of quality control

Appendices

The Appendices to the Guide include eight additional resources:

- Appendix A — Partner and Staff Acknowledgement of Independence
- Appendix B — Declaration of Confidentiality
- Appendix C — Client Acceptance (suggested matters to consider)
- Appendix D — Assignment of Personnel to Engagements (suggested planning steps)
- Appendix E — Consultation
- Appendix F — Engagement Quality Control Review (suggested procedures)
- Appendix G — Quality Control System Monitoring Process (suggested considerations)
- Appendix H — Monitor's Report (suggested content)

These appendices are presented as practice aids to those firms that choose to use them. They may be adapted as required, dependent upon the regulatory and professional requirements in the applicable jurisdiction, and may be customized as deemed appropriate based on the policies and procedures of the firm.

Summary of Organization

Each chapter in the Guide has been organized in the following format:

- **Chapter Title**
- **Chapter Purpose**

  This outlines the content and purpose of the chapter.

- **Primary References**

  The references noted at the start of each chapter refer to those paragraphs of ISQC 1 that are most applicable to the subject matter addressed in that chapter. This is not meant to infer that other references are not applicable or do not need to be considered.

- **Overview and Chapter Material**

  The overview section provides:

  - The text of the applicable requirements of the ISQC 1; and
  - A summary of what is addressed in the chapter.

  The overview is followed by a more detailed discussion of the subject matter and practical step-by-step guidance/methodology on how to implement the requirements. This includes cross-references to other relevant material, most especially International Standard of Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*.

Acronyms Used in the Guide

IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IES	International Education Standard
IFAC	International Federation of Accountants
IESBA Code	International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
ISAE	International Standard on Assurance Engagements
ISQC	International Standard on Quality Control
ISRE	International Standard on Review Engagements
ISRS	International Standard on Related Services
SME	Small- and Medium-Sized Entity
SMP	Small- and Medium-Sized Practice

Purpose

The objective of the Guide is to maintain and enhance the quality of performance related to the conduct of a firm as a whole. Thus, the Guide combines both requirements and application material to provide comprehensive coverage of ISQC 1.

As practitioners implement the suggestions in the Guide, they should ensure that communications with personnel describe in detail the quality control policies and procedures, in addition to the objectives they are designed to achieve. They should also emphasize that each individual has a personal responsibility for quality and is expected to comply with the firm's policies and procedures.

ISQC 1 deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements.

Customizing the Sample Manuals

Firms will wish to customize the sample manuals provided to suit their own practice. Accordingly, it will be necessary to read through them in detail and tailor specifically for the firm.

The following areas should be modified to suit the use of the manual within the practice:

- Select firm position references that apply (suggested firm positions have been provided throughout the sample manuals — page five in both of the sample quality control manuals introduces the suggested firm positions).
- Assign responsibility for all key quality control functions applicable to the firm.
- Select from policies (where presented) or modify the policies as appropriate.
- Ensure engagement templates are updated to reflect the policies in the manual.
- Ensure agreement by all partners (if a partnership).
- Present the manual to all partners and staff, preferably in a seminar environment.
- Change the headers and footers to insert the firm name and the date of the manual's completion. (This date should be changed with each future update.)
- As part of the orientation of new staff to the firm, provide the manual and perform a follow-up interview to ensure it has been read and understood.
- Review and update the manual as new standards or new firm policies are developed (it is suggested that this task be performed at least annually).

Note that in the case of the sample manual for a sole practitioner, the term "staff" is taken to mean the member(s) of staff who performs technical tasks relating to engagements in support of the sole practitioner. This therefore excludes staff who only perform non-technical, administrative tasks.

Introduction

The nature, extent, and documentation of the quality control policies and procedures that firms develop will vary and depend on many factors, including the size and nature of the firm and its operating characteristics. Effective policies and procedures do not need to be time-consuming or complex. In a small firm, one person may have to perform most of the functions necessary to implement a quality control system, or a firm may decide to retain the services of a qualified person outside the firm to provide this service.

The Guide includes a case study which can be used as a basis for training and discussion material.

Introduction to the Case Study

A case study has been developed to accompany the Guide, the purpose of which is to illustrate how certain elements of a system of quality control can be applied in practice. The following description provides background information about the fictional sole practitioner, M.M. and Associates. The chapters that follow include commentary on the case study to illustrate the concepts in practice.

Readers are cautioned that this case study is purely illustrative. The data, analysis, and commentary do not represent all of the circumstances and considerations that the firm will need to address in a particular circumstance. As always, the partners and staff must exercise professional judgment.

M.M. and Associates

General

Marcel Mooney is a sole practitioner, practicing as M.M. and Associates and employing four staff. The practice performs a large number of review engagements (some of which are on behalf of family members or close personal friends), several small audits, and three medium-sized audits. The more substantial audit clients include a retirement home, a local government agency, and the largest motorcycle dealership in town. The local government agency has had a lot of negative publicity lately with allegations of corruption against senior managers. Marcel has known the managers for many years and feels these charges are unfounded. The retirement home is almost a year behind in payment of its fees for last year's audit, and the firm needs to begin scheduling the field work soon.

Marcel, 48, started his practice in 1990 with no staff. The firm has grown gradually over the last 18 years. Marcel is a dynamic individual and keeps life around the office interesting. If something looks like fun, Marcel is usually in the middle of it. He is an excellent marketer and promotes the firm wherever he goes. Marcel earns a good living, and has no plans to retire. M.M. employs Deborah D'Alessandro, who has three years of experience with the firm and hopes to qualify as a professional accountant next year; an accounting technician, Bob Morton; and two students recently enrolled in a program of professional accounting studies, who are new to the firm. Bob has one year of experience and started with the firm four months ago. His enthusiasm makes up for his lack of experience. Deborah is constantly reminding Bob to ask the client more questions and to document more completely. In several cases, Bob has missed key matters in the file and Deborah has had to go back to the client and obtain further information.

Marcel, like many other practitioners, is always reluctant to turn down new clients, sometimes even those with poor reputations. He feels everyone has a right to professional services. Recently Marcel took on Mark Spitzer as an audit client. Mark owns the local restaurant, which has ties to community members with questionable reputations. Mark also has a history of problems with tax authorities resulting in fines, penalties, and, in one case, a suspended jail sentence. Deborah is not looking forward to the audit and the working environment she'll have to endure to get the work done.

Despite the firm's smaller size, and Marcel's somewhat casual attitude towards policy development, the firm has no history of complaints or allegations, and a majority of the clients would report they are satisfied with the firm's service.

Firm Planning Process

The firm's planning process consists of a day spent by Marcel reflecting on the past year and the preparation of a simple budget. The budget is usually last year's numbers adjusted for known client gains and losses. It also addresses capital requirements, staffing costs, and office expenses. Since the competitors in town seem to be performing fewer audit and review engagements, Marcel sees this as an opportunity to increase his share of the assurance market. He has thought about registering with the regulatory body in order to be able to conduct listed entity audits. Marcel normally discusses his firm's revenue plan with Deborah and together they plan staffing and other resources such as identifying equipment and furniture requirements for the next year.

Human Resources

The hiring process is informal. When one of the staff members announces that he or she is leaving the firm, Marcel may place an advertisement in the local newspaper or review the resumes recently received from people looking for positions. When a candidate is found, Marcel interviews this individual and then makes a decision. Marcel tries to check out the references or qualifications of candidates, but sometimes he does not complete the process owing to the pressures of client meetings and engagements. Deborah assists Marcel with staff scheduling when a time conflict arises and finds work for staff that are not busy.

Since junior staff never seem to stay with the firm very long, Marcel is reluctant to spend time and money training them. Besides, he believes "on the job" training is the best training. Furthermore, he does not often conduct performance appraisals, and retains only brief notes on file for any of the personnel, with the exception of statutory personal information required to prepare the necessary annual income reporting slips.

Professional Standards

Marcel is concerned about the new independence rules. He fears they may prevent him from performing some assurance engagements. For example, when Deborah questioned the firm's independence on a new audit client, Magnificent Dollar Stores (a business owned in part by Marcel's sister-in-law), he responded "I hardly know the woman. There's no threat."

Marcel spends his time managing or attracting clients, so he has not kept up-to-date with the new professional standards as much as he would like. He feels the new standards are too complicated and time-consuming for working practitioners and their clients to understand. He barely has time to keep up with all of the tax changes. Marcel relies heavily on Deborah to ensure the engagement files meet professional standards.

Marcel resists leading-edge technology, but after some pressure he recently purchased notebook computers for Deborah and Bob, who wanted to start using electronic working paper software. The students share a desktop computer. Marcel has considered becoming a member of a local group of small firms who provide training on new standards, but hasn't yet had time to contact the group and investigate the advantages and costs associated with joining the affiliation.

As a result of comments received during the last practice inspection two years ago, M.M. purchased a subscription to certain resource library materials, including an audit and review manual which includes examples of standardized templates. Despite the negative comments Marcel's attitude towards practice inspection is just to obtain 'a passing grade' without having to engage in additional procedures that he feels will only consume the limited time available to his personnel that don't result in fee generation for the firm.

Planning and File Reviews

Since Marcel knows his clients well, he feels that planning meetings are rarely needed. The approach used most commonly in the firm is simply to do whatever was done last year. Marcel performs his own file reviews. Engagement personnel are briefed by Marcel before beginning field work. Engagement letters are obtained, but for existing clients this is usually done after the engagement is complete. Standard templates are used most of the time. Staff is expected to do their best to complete the file and then hand it in for review. Deborah reviews her own work, and Bob's and the students' work, before giving the file to Marcel to sign off. Marcel is not naturally inclined towards the patient work of reviewing files and gets frustrated when there is too much paper in the file. He would like to spend time doing careful reviews, but sometimes the amount of paper the employees put in the file makes this too time-consuming.

After Marcel heard about the new quality control standards, he asked Deborah to study them and report back to him with recommendations about what the firm should do. The one condition he gave her was that the changes should be kept to the minimum required because compliance rules tend to cut into billable hours. Deborah feels uncomfortable with this approach. She also knows that the firm has no formal process for determining if, and when, an engagement quality control review should be completed on a file, but she is aware that this forms only one component of the standards requirements.

Glossary of Terms

The definitions provided in the Guide are those used in the IESBA Code, Glossary of Terms and ISQC 1 (as contained in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements)*. Both partners and staff must be aware of these definitions.

Assurance engagement

An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria.

Assurance team

(a) All members of the engagement team for the assurance engagement;

(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management, or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
- (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
- (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Auditor's expert

An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner[1] or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

Date of report (in relation to quality control)

The date selected by the practitioner to date the report.

Engagement documentation

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

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.

1 "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.

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

Engagement quality control review

A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

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 the significant judgments the engagement team made and the conclusions they reached in formulating the report.

Engagement team

All partners and staff performing an engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

Financial statements[3]

A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement.

Firm

A sole practitioner, partnership or corporation or other entity of professional accountants.

Independence

(a) Independence of mind — the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and to exercise objectivity and professional scepticism; and

(b) Independence in appearance — the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's integrity, objectivity or professional scepticism had been compromised.

3 IESBA Code definition: A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement for example, a balance sheet, or a statement of revenue and expense, and related explanatory notes.

Inspection (in relation to quality control)

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

Intended users

The person, persons or class of persons for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.

Key audit partner

The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.

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.

Monitoring (in relation to quality control)

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 provide the firm with reasonable assurance that its system of quality control is operating effectively.

Network

A larger structure:

(i) That is aimed at co-operation; 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.

Network firm

A firm or entity that belongs to a network.

Partner

Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

Personnel

Partners and staff.

Practitioner

A professional accountant in public practice.

Professional accountant[4]

An individual who is a member of an IFAC member body.

Professional standards (in the context of ISQC 1)

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.

Public interest entity

(a) A listed entity; and

(b) An entity (i) defined by regulation or legislation as a public interest entity or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Public sector

National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related government entities (for example, agencies, boards, commissions, and enterprises).

Reasonable assurance (in the context of assurance engagements, including audit engagements, and quality control)

A high, but not absolute, level of assurance.

Related services

Comprise agreed-upon procedures and compilations.

Relevant ethical requirements

Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with national requirements that are more restrictive.

Responsible party

The person (or persons) who:

(a) In a direct reporting engagement, is responsible for the subject matter; or

4 As defined in the IESBA Code of Ethics for Professional Accountants

(b) In an assertion-based engagement, is responsible for the subject matter information (the assertion), and may be responsible for the subject matter.

The responsible party may or may not be the party who engages the practitioner (the engaging party).

Review (in relation to quality control)

Appraising the quality of the work performed and conclusions reached by others.

Staff[5]

Professionals, other than partners, including any experts the firm employs.

Subject matter information

The outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.

Suitably qualified external person

An individual outside the firm with the competence and capabilities 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.

Those charged with governance

The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

The Guide also uses the following term:

Small- and medium-sized practice (SMP)

An accounting practice/firm that exhibits the following characteristics: its clients are mostly small and medium-sized entities (SMEs); external sources are used to supplement limited in-house technical resources; and it employs a limited number of professional staff. What constitutes an SMP will vary from one jurisdiction to another.

5 In the case of a sole practitioner, it is suggested that use of the term "staff" be read and interpreted as staff who perform technical tasks relating to engagements in support of the sole practitioner. Refer to page x for further explanation.

General Policy Statement

Chapter Purpose	*Primary Reference*
To provide guidance on the: • Need for application of ISCQ 1 and compliance with relevant requirements; and • Elements of a system of quality control.	ISQC 1.11, ISQC 1.16–.17

Overview

ISQC 1.11 states:

11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:

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

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

ISQC 1.16–.17 states:

16. The firm shall establish and maintain 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.

17. The firm shall document its policies and procedures and communicate them to the firm's personnel. (Ref: Para. A2–A3)

The firm shall establish, implement, maintain, monitor, and enforce a quality control system that provides reasonable assurance that its personnel comply with professional standards and applicable regulatory and legal requirements, and that the firm's engagement reports are appropriate for the circumstances.

Accordingly, the firm's quality control system shall include appropriately documented, communicated, and monitored policies and procedures that address each of the following elements.

- Leadership responsibilities for quality within the firm
- Relevant ethical requirements (including independence)
- Accepting and continuing client relationships and specific engagements
- Human resources
- Engagement performance (including engagement quality control review)
- Monitoring

It is suggested that the underlying foundation of the quality control system be built on principles that stress:

- Ethical conduct;
- Independence and objectivity;
- Maintaining professional competency;
- Due care and quality of work;
- Generally accepted standards of practice;
- Clarity of wording and guidance;
- Practicality and relevance balanced with economics, firm size and resources, and reasonable cost/benefit considerations for clients and the firm;
- Reasonable client retention; and
- Personnel development, satisfaction, and retention.

Accordingly, the quality control system is designed to encompass and address the specific elements and practices needed to meet or exceed professional standards, applicable legal and regulatory requirements, and the IESBA Code.[6]

In the introduction to the firm's general policy statement on quality control, the firm may include its mission statement. A firm may also wish to identify its goals and details on the organizational structure.

General Roles and Responsibilities of All Partners and Staff

All partners and staff are, to varying degrees, responsible for implementing the firm's quality control policies and procedures.

In consultation with all partners and staff, a firm can choose to identify the common values to which it is willing to subscribe, and which will comprise a part of its quality control manual. These values might include quality of service, timely and appropriate client communication, and a collegial professional attitude within the firm which is backed by integrity, conscientiousness, and consultation.

6 Or member body code of ethics

It is important that staff interpret the internal culture as one that rewards quality performance and work. This message should be clear to staff through all means of communication, such as the mission statement and firm goals, internal and external training, and dialogue with the partner(s) of the firm.

For example, the firm could consider a review of all current practices, which would encourage partners and staff to conform these practices to the quality control guidelines and policies, such as:

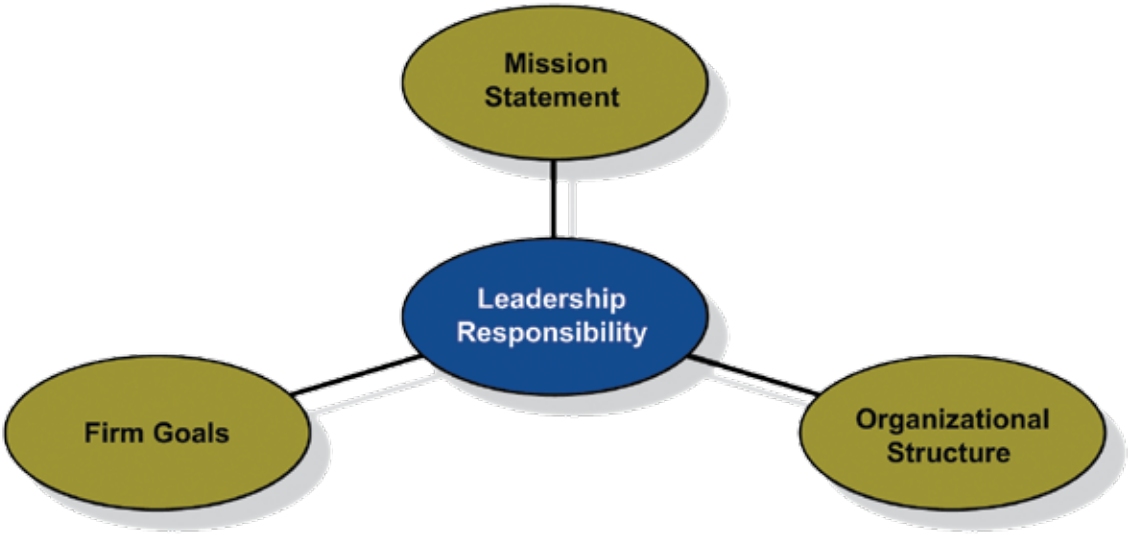
- Treating ethical behavior and quality of service as the first priority; commercial considerations may not override the quality of the work performed;
- Reading, understanding, and following the IESBA Code;[7]
- Understanding the firm's and their individual responsibilities to identify, disclose, and document threats to independence and the process to be followed to address identified threats;
- Avoiding circumstances where independence may be (or appear to be) impaired;
- Complying with continuing professional development requirements including maintenance of records as evidence thereof;
- Remaining abreast of current developments in the profession, applicable financial reporting framework and assurance standards (for example, IFRSs, ISAs), disclosure and accounting practices, quality control, firm standards, and relevant industry and client-specific developments;
- Providing other partners and staff with courteous assistance, when needed and requested, to help them learn through shared knowledge and experience and improve the quality of client service;
- Keeping time records (regularly entered into the firm's time and billing systems) to track and identify time spent on engagement and office activities (both chargeable and non-chargeable);
- Safeguarding and properly using and maintaining office and computer equipment (including network and communication resources) and other shared assets. This includes using the firm's technological resources only for appropriate business purposes, taking into consideration ethics, client confidentiality, and privacy;
- Keeping firm and client data, business and client information, and personal information protected and fully confidential;
- Ensuring that firm-generated electronic-based information on the client or firm is stored on the firm network according to appropriate information storage procedures (if applicable);
- Informing a partner or manager of any observations of significant breaches in firm quality control, ethics including independence, confidentiality, or inappropriate use of firm resources (including Web and e-mail systems);
- Documenting and maintaining appropriate records of all significant client contacts when professional advice is given or requested;
- Documenting and maintaining appropriate records of all significant consultations, discussions, analyses, resolutions, and conclusions on independence threat management, difficult or contentious issues, differences of opinion, and conflicts of interest; and
- Following the firm's standard practices for work hours, attendance, administration, meeting deadlines, and quality control.

In the case of smaller firms, the firms may choose to contract this review to an external provider.

7 Or member body code of ethics

HELPFUL HINTS

Gather all partners and staff together for a strategic session. Together define the mission statement and firm goals. Determine how these can reasonably be accomplished. Examine the organizational chart to ensure that the current structure can support the firm objectives.



1. Leadership Responsibilities for Quality Within the Firm

Chapter Purpose	*Primary Reference*
To describe the firm's responsibilities to promote an internal culture focused on quality control.	ISQC 1.18–.19

1.1 Overview

ISQC 1.18–.19 states:

18. The firm shall establish policies and procedures designed to promote an internal culture recognizing 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. A4–A5)
19. The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6)

1.2 Tone at the Top

The partner(s) decide on all key matters regarding the firm and its professional practice. Partner attitudes, behaviors and messaging to staff constitute the "tone at the top."[8] This tone should convey strong support for quality work and a quality control culture.

The partner(s) are responsible for leading and promoting a quality control culture within the firm and for providing and maintaining the firm's quality control manual and all other necessary practical aids and guidance to support engagement quality. Partner commitment to these goals is a must if the firm hopes to be successful in developing and maintaining quality control.

The partner(s) are responsible for determining the firm's operating and reporting structure. In addition, the partner(s) should designate from among themselves or other qualified staff, on an annual or other periodic

8 For more guidance on creating the right "tone at the top," refer to the IFAC publication "Tone at the Top and Audit Quality," which can be downloaded free of charge from the IFAC website at http://web.ifac.org/publications/forum-of-firms.

basis, the person(s) responsible for the elements of the quality control system.

It is suggested that the individuals who take on specific responsibilities and duties ideally be the most qualified and experienced in both professional and regulatory obligations. A single partner may assume responsibility for more than one function, as long as all functions are covered. These functions may include office management, independence, conflict of interest, confidentiality, quality control, information technology, and human resources. The authority to develop the policies and procedures and to implement them logically accompanies these responsibilities.

The appointed partner(s) are ultimately responsible and accountable to the firm for their respective oversight roles, as defined in the firm's general policy statement on quality control, quality control manual, and partnership agreements.

Appointed partners may delegate specific functions and authority to other senior staff, but they retain responsibility for their respective oversight roles.

Regardless of who is responsible for the quality control system, the partner(s) should be mindful that the firm's commercial considerations do not override management responsibilities for quality; that performance evaluation, compensation, and promotion demonstrate the primacy of quality; and that sufficient resources are allocated to develop, document, and support quality control policies and procedures.

HELPFUL HINTS

At regularly scheduled staff meetings, it is suggested that you remind all partners and staff to adhere to the quality control policies and procedures of the firm and to utilize the tools available to assist engagement teams with the requirements. Invite comments and suggestions for improvement and allow time for questions. These gatherings could also be used as a vehicle to communicate the recognition and rewards available to partners and staff who demonstrate a commitment to the firm's quality control system.

Leadership Responsibility Pyramid

Case Study — Tone at the Top

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

Marcel has a responsibility to promote a quality control culture within the firm. However, he is ambiguous about this responsibility, as is evidenced by his lack of interest towards formal development plans for students and technical staff, and his failure to seek input from staff towards development of the firm's mission statement and the goals they wish to accomplish.

Annual planning (essentially one day per year) includes no real sense of where Marcel would like to take the firm, consideration of the risks associated with the types of clients the firm is attracting, or the competence of the current staff complement. It is apparent the firm would be in grave difficulty should something happen to Marcel. There is presently no one in a position to assume responsibility for the management of the firm in his absence.

While Marcel is interested in and competent at marketing, the firm lacks the infrastructure to position it for growth in the marketplace. He would like to accept new, riskier engagements by seeking out audit engagements for listed entities. However, time must be spent on properly assessing the capabilities of the firm and ensuring that these client needs will be met.

Marcel is wary about recent IESBA Code requirements, as evidenced by his instructions to Deborah regarding a minimum amount of change. He is not looking for opportunities to improve efficiency

and effectiveness of quality systems. Nor does he appear to see that a reputation for high-quality services can be a major marketing factor for a professional accounting firm.

His actions appear to send staff the wrong message, and will not promote a culture that respects ethical responsibilities. There is no mention of whether the staff is provided with an up-to-date copy of the IESBA Code, which would provide them access to the most recent Ethics pronouncements.

When Marcel communicates to staff that he is only interested in doing the minimum required to pass his practice inspection this sends a strong message that quality is not a priority. Such messages provide a disincentive to firm personnel to suggest necessary improvements to their processes because they hear that quantity (billings) are more important than quality (meeting the standards).

In short, Marcel may not be meeting the standard of ISQC 1.18–.19.

Marcel should obtain and modify a sample quality control manual to suit his firm's requirements. It would be useful in the process to consult Deborah, his most experienced staff member. He could organize a presentation of the new manual within the firm, either by speaking himself or by inviting an outside speaker.

Marcel may wish to engage the services of an external consultant to learn how to best bring about the required changes to his firm processes, while still maintaining a healthy profit margin. This may mean employing technology to a greater extent, or may involve examination of his firm's less profitable clients. Marcel may also wish to consider assigning certain responsibilities for the system of quality control to Deborah.

2. Relevant Ethical Requirements

Chapter Purpose	*Primary Reference*
To provide guidance on the fundamental principles which define professional ethics.	ISQC 1.20–.25

2.1 Overview

ISQC 1.20 states:

20. 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. A7–A10)

An ethical practice is the foundation of long-term success. For professional accountants, the fundamental principles of professional ethics are:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behavior.

Ethics involves knowing when to say "no" and when to sever client, staff, or even partner relationships.

It is suggested that partners make it a practice to be aware of other partners' activities regarding the firm and its clients. Regular contact during the workday, including regularly scheduled partner meetings, and a clear policy on consultation for risky or contentious issues, helps ensure that each partner is, in fact, aware of other partners' activities.

Written partnership agreements normally address dispute resolution and partnership dissolution when disagreement proves too difficult to settle reasonably.

Whether or not an ethical problem arises with a partner or staff member, firms should establish a process to deal with instances of non-compliance.

2.2 Independence

ISQC 1.21–.25 states:

21. 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: (Ref: Para. A10)

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

    (d) 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, where withdrawal is possible under applicable law or regulation.

22. Such policies and procedures shall require: (Ref: Para. A10)

    (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 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 that are not at an acceptable level.

23. 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: (Ref: Para. A10)

    (a) Personnel 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, where appropriate, the network, 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 23(b) (ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

24. 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. A10–A11)

25. The firm shall establish policies and procedures: (Ref: Para. A10)

    (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) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12–A17)

Independence and objectivity are necessary preconditions for the provision of credible assurance services by professional accountants.

The IESBA Code describes specific circumstances and relationships that may create threats to independence during the performance of an engagement and provides examples of safeguards that may be appropriate to address the threats. The IESBA Code also describes situations where safeguards are not available to address the threats and, consequently, the circumstance or relationship creating the threat must be avoided.

The firm policy should require an understanding and working knowledge of these requirements in order to ensure compliance. Threats will fall into one or more of the following categories:

(a) Self-interest - the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour;

(b) Self-review - the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service;

(c) Advocacy - the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;

(d) Familiarity - the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation - the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

Detailed examples of safeguards that may be appropriate to address these threats can be found in Part B of the IESBA Code. Despite the safeguards which may be considered and applied in certain instances, all partners and staff must be familiar with the prohibitions in the IESBA Code, in particular Section 290[9] and

9 Readers should note that the revised requirements within Sections 290 and 291 are effective January 1, 2011.

Section 291[10].

Regardless of whether staff hold a professional designation, all members of the assurance team must have independence of mind and be independent in appearance of their assurance clients.

Independence shall be maintained as set forth in and by:

- The IESBA Code, specifically Section 290 and Section 291;
- ISQC 1; and
- Any additional local requirements.

If threats to independence cannot be eliminated or reduced to an acceptable level by applying appropriate safeguards, the firm shall eliminate the activity, interest, or relationship that is creating the threat, or refuse to accept or continue the engagement.

Instances of non-compliance with the independence requirements must be reported to the firm. The firm should designate an appropriate partner or staff member for this purpose.

2.2.1 Responsibilities — The Firm

The firm should be responsible for the development, implementation, monitoring, and enforcement of policies and procedures designed to assist all partners and staff in understanding, identifying, documenting, and managing independence threats and for the resolution of independence issues.

To fulfill its responsibilities, it is suggested that the firm:

- Specify in the firm's general policy statement those personnel who are ultimately responsible for the appropriate resolution of independence threats not adequately resolved or reduced to an acceptable level through the application of safeguards by the assurance team;
- Specify the personnel responsible on the firm's behalf and, therefore (after consultation with others), who have the final decision on any independence threat resolution, including:
  - Resignation from a specific engagement or a client relationship;
  - Determining and imposing specified safeguards, actions, and procedures to address threats appropriately;
  - Hearing and investigating unresolved independence compliance concerns raised by members of the assurance team (or by other partners or staff);
  - Ensuring appropriate documentation of the process and resolution of each significant independence issue;
  - Invoking sanctions for non-compliance;
  - Initiating and participating in pre-emptive planning measures to help avoid and address potential independence concerns;
  - Arranging additional consultation, if needed; and
  - Instituting and maintaining a policy requiring all partners and staff to review their specific circumstances and advise the firm of any independence threats.

10 See note 9 above

When threats to independence that are not at an acceptable level are identified, and the firm decides to accept or continue the assurance engagement, the decision shall be documented. The documentation should include a description of threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

It is also suggested that the firm assign responsibility for the maintenance of a database which provides a listing of all clients from whom independence is required and, therefore, investments in these clients are prohibited. For public interest entity clients, the database would include related entities. The database should be easily accessible by all partners and staff.

If an association of firms meets certain criteria it will be deemed to be a network and all firms within that network are required to be independent of audit and review clients of all firms within the network. A criterion is related to use of a common brand name. If an audit or review report is signed using the common brand name of the association, and the association is a structure aimed at cooperation between its members, the firm will be deemed to be a network firm and will be required to be independent of the other audit and review clients of all the firms within the network, even where all the firms within the network exist as separate and distinct legal entities.

For those firms that belong to a network, additional processes and procedures will be required in order to effectively communicate with each other, thus ensuring that the independence requirements are met. In order to determine whether the firm belongs to a network, refer to paragraphs 290.13–.24 of the IESBA Code.

2.2.2 Responsibilities — Partners and Staff

All partners and staff are required to be aware of and understand the IESBA Code Section 290 and Section 291, ISQC 1.20–.25 and, for those involved in audit work, ISA 220.11. All members of the assurance team shall meet the independence requirements in the IESBA Code for all assurance engagements and reports issued.

The firm shall obtain from all partners and staff required to be independent by relevant ethical requirements written confirmation that they understand and have complied with the firm's independence policies and procedures. The confirmation of compliance shall be obtained at least annually (in paper or electronic form). It is suggested that this annual process be accompanied by a review of Section 290 and Section 291 of the IESBA Code in order to determine that the firm's policies are up-to-date with the most current requirements.

The Partner and Staff Acknowledgement of Independence form has been included at **Appendix A** for this purpose. This document should be tailored to the firm's policy on independence.

It is also suggested that the engagement partner obtain confirmation from partners and staff assigned to an assurance engagement that they are independent of the client and engagement, or that they have notified the engagement partner of any threats to independence so that appropriate safeguards can be applied to eliminate or reduce the threat to an acceptable level.

Firms should establish policies and procedures to require that personnel promptly notify the firm of independence breaches of which they become aware, which would include requiring partners and staff assigned to an engagement to notify the engagement partner if, to their knowledge, any member of the assurance team has, during the disclosure period, provided any service that would be prohibited under

Section 290 and/or Section 291 of the IESBA Code or other regulatory authority, which could result in the firm being unable to continue with an assurance engagement.

Members of the assurance team (including the engagement partner) may be asked by the firm to take the actions necessary to eliminate or reduce any independence threat to an acceptable level through the application of appropriate safeguards. These actions may include:

- Ceasing to be a member of the assurance team;
- Ceasing or altering specific types of work or services performed in an engagement;
- Divesting of a financial or ownership interest;
- Excluding the member of the assurance team from any significant decision-making concerning the engagement;
- Ceasing or changing the nature of personal or business relationships with clients;
- Submitting work for additional review by other partners and staff; and
- Taking any other reasonable actions that are appropriate in the circumstances.

It is important to recognize that familiarity threats may be created by using the same senior personnel on an assurance engagement over an extended period of time. It is recommended that the firm plan for these occurrences and consider safeguards which will be appropriate to address these threats.

Partners and staff should be instructed to make referrals to the appropriate personnel in all instances where an ethics issue, including independence, has arisen that requires further consultation and discussion in order to resolve the issue. If partners or staff are not satisfied that an independence threat is being appropriately addressed or resolved, it is suggested that the matter be referred to the highest authority level within the firm.

2.2.3 Long Association of Senior Personnel (Including Partner Rotation) on Audit Engagements for Public Interest Entities

Section 290 of the IESBA Code contains requirements regarding the long association of senior personnel on audit engagements for public interest entities.

In accordance with paragraph 290.151, when the audit client is a public interest entity and an individual has been a key audit partner for a period of seven years, the individual shall not participate in the engagement until a period of two years has elapsed. Key audit partners comprise the engagement partner, the individual responsible for the engagement quality control review, and other partners, if any, on the engagement team who key decisions or judgments on significant matters with respect to the audit.

However, some degree of flexibility may be necessary in rare cases due to unforeseen circumstances outside the firm's control and where the individual's continuity on the audit engagement is especially important to audit quality — for example, when there will be major changes to the audit client's structure that would otherwise coincide with the individual's rotation or, due to serious illness of the intended engagement partner. The circumstances under which rotation would not be recommended or required should be compelling. When the individual is not rotated after such a predefined period, equivalent safeguards should be applied to reduce any threats to an acceptable level. Such safeguards would include involving an additional professional accountant from outside the firm or someone within the firm, who is not otherwise associated with the audit team, to review the work done or otherwise advise as necessary.

Assessing independence of the assurance team is an important part of client acceptance and continuance procedures. If an individual has been assigned responsibility for ethics within the firm, and such an assessment concludes that rotation of any engagement team member is necessary, it is suggested that this individual be informed.

It is suggested that, after reviewing the circumstances and consulting other partners, the firm provide its decision in writing as soon as possible (thus providing appropriate documentation to the file) to the client.

In order to comply with the rules on rotation, sole practitioners might consider an arrangement whereby they provide engagement quality control review or other engagement services between themselves and another practitioner or share responsibility for these functions among a group of practitioners. Such an arrangement should be appropriately documented between the practitioners participating, and the engagement letter with each client should be modified as required to correctly document who is responsible for the assurance report for each period.

However, for a sole practitioner, rotation may not be an available safeguard. In accordance with the IESBA Code (paragraph 290.155), if an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

2.2.4 Rotation of Personnel on Audit Engagements for Non-Public Interest Entities

For non-public interest entities, if rotation is deemed necessary, the partner or staff member responsible for independence matters will identify the replacement, specifying the period for which the individual shall not participate in the audit of the entity, and other safeguards necessary to comply with any other relevant requirements.

2.3 Conflict of Interest

Conflicts of interest can arise in a number of circumstances, for example, when a partner or staff member represents two clients, one a buyer and the other a seller to the same transaction, or is assisting a client in the hiring of a senior position within their company when the partner or staff member is aware that a spouse of one of the firm's personnel is an applicant.

Section 220 of the IESBA Code contains requirements regarding interests, influences, or relationships that may create a conflict of interest. Partners and staff shall be free of any interests, influences, or relationships in respect of the client's affairs which impair professional judgment or objectivity.

2.3.1 Conflict of Interest — The Firm

The firm is responsible for the development, implementation, compliance, enforcement, and monitoring of practice methods and procedures designed to assist all partners and staff in understanding, identifying, documenting, and addressing conflicts of interest, and determining their appropriate resolution.

It is suggested that responsibility for the appropriate procedures to be followed when conflicts and potential conflicts of interest have been identified be assigned to the role of the individual ultimately responsible for ethics within the firm.

After consultation with other partners and staff, the individual responsible for ethics within the firm should have the final authority on the resolution of any conflict of interest situation, which could include:

- Initiating and participating in pre-emptive planning measures to assist in avoiding conflicts of interest situations that may arise;
- Determining and requiring specified actions and procedures to appropriately address the conflict, protect sensitive and client-specific information, and ensure appropriate consents are obtained and disclosures made when it is determined to be acceptable to act;
- Appropriately documenting the process, safeguards applied, and decisions or recommendations made;
- Refusing or discontinuing the service, engagement, or action; and
- Administering partner and staff discipline procedures and sanctions for non-compliance.

2.3.2 Conflict of Interest — Partners and Staff

According to the IESBA Code, partners and staff may not exploit client information for personal gain and shall take reasonable steps to identify circumstances that could pose a conflict of interest. They should exercise due care, follow firm policy, and it is suggested that they discuss the particular circumstances with the individual responsible for ethics within the firm, when appropriate, to determine how to address the situation and whether a particular service should be avoided.

Whenever a conflict or potential conflict is identified, the partners or staff should not act or provide advice or comment until they have thoroughly reviewed the facts and circumstances of the situation. If an individual has been assigned responsibility for ethics within the firm, it is suggested that agreement be obtained from this individual to ensure that the required safeguards and communications are in place and it is appropriate to act. It is further suggested that the decision to act or provide advice in these circumstances be fully documented.

Depending upon the circumstances giving rise to the conflict one of the following actions is ordinarily necessary:

- Notifying the client of the firm's business interest or activity that may represent a conflict;
- Notifying all relevant parties that the firm is acting for two or more parties in respect of a matter where their respective interests are in conflict;
- Notifying the client that the partners or staff do not act exclusively for any one client in the provision of proposed services.

In all three cases the client's consent to act shall be obtained.

When the firm decides to accept or continue the engagement, it is suggested that partners and staff document within the engagement file identified conflicts, typically in the acceptance and continuance or planning sections. This might include any correspondence or discussions concerning the nature of the conflict, as well as any consultations with others, conclusions reached, safeguards applied, and procedures followed to address the conflict situation.

If internal confidentiality is required, it may be necessary to prevent other partners and staff from having access to the information with the use of firewalls; physical, personnel, file, and information security; specific non-disclosure agreements; or segregation and lock-down of files or access to data. When these measures are taken, all partners and staff involved should respect and abide by them without exception. If partners

or staff are unsure of their responsibilities regarding the assessment of a conflict or potential conflict, it is suggested that a discussion be held with other non-involved personnel to request help with the assessment. If an individual has been assigned responsibility for ethics within the firm, and the conflict situation is significant or particularly sensitive, it is suggested that the matter be referred to this individual for review.

If partners or staff become aware of others acting (knowingly or inadvertently) in situations contrary to firm policies or specific determinations regarding engagements (other than a trivial or inconsequential instance), it is recommended that the matter be immediately referred to the individual responsible for ethics within the firm (where applicable). It is suggested that if the matter is not appropriately addressed by ethics personnel, it be referred to the highest level of authority within the firm.

HELPFUL HINTS

Ordinarily, there are two questions that may be asked as a test for conflict of interest situations.

1) In the particular circumstance, if one party gains, is the other party certain or likely to lose?
2) Are we (partners, staff or the firm) gaining from the use of the confidential information?

As an additional consideration, you might consider public perception in the circumstances.

2.4 Confidentiality

All partners and staff must protect and keep confidential any client information that is required to be kept confidential and protected according to governing laws, regulatory authorities, Section 140 of the IESBA Code, firm policy, and specific client instructions or agreements.

Client information and any personal information obtained during an engagement should be used or disclosed only for the purpose for which it was collected.

It is suggested that personal and client information be retained only as defined by the firm's access and retention policy (see Section 7.5). Documents should be kept on file for as long as is necessary to fulfill professional, regulatory or legal requirements.

It is recommended that the firm develop policy which requires personal and client information to be as accurate, complete, and up-to-date as possible.

It is further recommended that the firm develop policies which would permit an individual or client (with appropriate authorization), upon request, to be informed of the existence, use, and disclosure of personal information or specified equivalent business information and that (as appropriate) access be given to this information.

2.4.1 Confidentiality — The Firm

The firm is required to fulfill its legal, professional, and fiduciary duties regarding privacy legislation (if applicable) and Section 140 of the IESBA Code. These requirements extend to the privacy legislation in the country in which the firm resides, and may also extend to any other countries where the firm provides services.

The firm may meet these obligations in the following ways.

An individual is appointed who is ultimately responsible for the implementation, compliance, and enforcement of protection of personal information under the firm's control and for client confidentiality. This individual will have final authority on the resolution of privacy and client confidentiality situations.

The firm communicates its policies and provides access to information on guidance, rules, and interpretations through a quality control manual, other firm documentation (such as training materials), and electronically, to educate all partners and staff on privacy and client confidentiality requirements and issues.

It is suggested that the firm policy requires the use of industry-standard technology, including firewalls, hardware, and software, as well as data transmission and storage procedures designed to retain, catalogue, and recover electronic information and protect this information from unauthorized access or inappropriate use (both internally and externally) (if applicable).

It is also suggested that the firm policy require the maintenance of internal and external hard-copy file handling and storage procedures and facilities to protect, retain, catalogue, and recover file information and to protect this information from unauthorized access or inappropriate use (both internally and externally).

The firm may require that a declaration of confidentiality be signed by all personnel upon hire, and may choose to maintain this documentation on file. All personnel are expected to be thoroughly familiar with the firm's policy statement on confidentiality and to comply with it. Acknowledgement of this understanding will be evidenced by way of signature on the firm's confidentiality agreement. It is suggested that the declaration of confidentiality be obtained at least annually to serve as a reminder of the requirement.

A sample Declaration of Confidentiality is provided at **Appendix B**, which firms may use as a template.

HELPFUL HINTS

The firm can maintain easy access to resources for all partners and staff that promote adherence to an ethical environment. Such resources might include an up-to-date copy of the IESBA Code[11] and other relevant materials (such as training materials which address ethical issues). It is suggested that these resources comprise an integral part of the firm's resource and research library.

11 Or member body code of ethics

Case Study — Ethical Requirements

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

Marcel has an obligation to establish policies and procedures designed to provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements. Yet when Deborah tried to speak to him about her concern with respect to the performance of an audit on behalf of an entity owned in part by his sister-in-law, he quickly dismissed the issue. There does not appear to be a program of ethical education including matters of independence and conflict of interest. We do not know whether such matters are systematically considered for each engagement.

Is Marcel identifying and evaluating circumstances and relationships that may create threats to independence and taking appropriate steps to eliminate or reduce them to an acceptable level by applying the necessary safeguards?

Think about the audit engagement being prepared for Magnificent Dollar Stores. What concerns are you able to identify? What kinds of threats do you believe may be created in the instances of the local government agency, the retirement home, or the local restaurant?

Marcel is likely not meeting the standards required of ISQC 1.20–.25.

Marcel could strengthen his compliance with the ethical requirements set out in ISQC 1 and the IESBA Code by preparing the quality control manual and educating staff on the contents, as suggested earlier.

Marcel should obtain an up-to-date copy of the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements,* which would provide details of the most recent ethics pronouncements, and should adopt these requirements into his firm policies and procedures.

Further, as a part of his client acceptance and continuance procedure, he will need to add an assessment of independence, including identifying threats and applying appropriate safeguards. This will involve employing the use of certain tools (such as the Partner and Staff Acknowledgement of Independence found in **Appendix A**) in order for the firm to meet the annual requirement of written confirmation of compliance with policies and procedures on independence from all firm personnel.

3. Acceptance and Continuance of Client Relationships and Specific Engagements

Chapter Purpose	*Primary Reference*
To provide guidance on the establishment of appropriate acceptance and continuance policies and procedures.	ISQC 1.26–.28

3.1 Overview

ISQC 1.26–.28 states:

26. 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) Is competent to perform the engagement and has the capabilities, including time and resources to do so; (Ref: Para. A18, A23)

    (b) Can comply with relevant ethical requirements; and

    (c) 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. A19–A20, A23)

27. Such policies and procedures shall require:

    (a) The firm to 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. (Ref: Para. A21, A23)

    (b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.

    (c) If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.

3.1 Overview

28. The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures 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

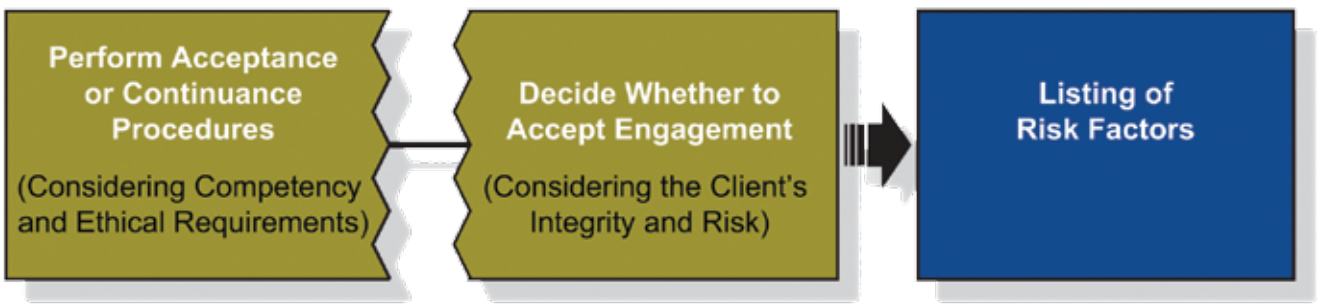
    (b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship. (Ref: Para. A22–A23)

3.2 Acceptance and Continuance

Making the wrong decision to accept a new client or continue with an existing problematic client can have a negative impact on any firm, but this may be even more so in the case of a small- and medium-sized practice. Such clients may impact the firm's ability to properly service the more productive clients, and affect the growth potential of the firm overall.

Accordingly, the firm and its partners and staff should accept new engagements or continue existing engagements and client relationships only after the engagement partner, based on a review process, has determined that:

- The integrity of the client had been considered, and there is no information that would lead to the conclusion that the client lacks integrity;
- The firm and engagement team have the necessary capabilities including resources and time to complete the engagement;
- The firm and its partners and staff can comply with relevant ethical requirements including being independent of the client under the terms of Section 290 and Section 291 of the IESBA Code; and
- The firm's quality control requirements can and have been met.



3.2.1 Acceptance and Continuance — The Firm

The firm shall establish policies and procedures to provide it with reasonable assurance that it identifies and assesses the potential sources of risk associated with a client relationship or a specific engagement.

To assist with this process, and to provide an environment for the application of consistent decision-making, it is recommended that the firm develop and/or use standard industry-accepted checklist and/or questionnaire templates to ensure consistent application of the acceptance and continuance considerations. These templates would be included in the planning section (including planning checklist, client profile, and risk considerations) of the firm's standard working paper packages for engagements. Personnel would complete these templates for all engagements, and file reviewers would review them as part of their review process.

For each ongoing engagement, a documented client continuance review is suggested to consider and determine whether it is appropriate to continue providing the client with services, based on the prior engagement and planning for the continuing engagement. In making the determination to continue the engagement, the firm may consider significant matters that have arisen during current or previous engagements and the implications these considerations have on the client relationship. The review process should also include consideration of any rotation requirements.

The firm shall document the decision and how issues identified were resolved. It is suggested that the engagement partner approve and sign off on the decision to accept or continue an engagement.

If, after completing the acceptance and planning phase of the engagement, significant risks associated with the client or engagement have been identified, the matter should be discussed with the appropriate individual within the firm who has been designated responsibility for approving new clients or continuing relationships with existing clients. It is suggested that formal approval be required, and the firm shall document how the issues were resolved. If the concerns involve ethics-related matters, it is suggested that the individual responsible for ethics within the firm also provide his or her approval.

In the instance of smaller firms, where a single partner may be responsible for both client acceptance and ethics, a policy might be adopted that requests second partner approval for clients with higher risks (ethical, independence, conflict of interest, compliance by the client with IFRSs or co-operation by the client needed to apply ISAs, and so on).

HELPFUL HINTS

When assessing the potential risks associated with an engagement and deciding whether the firm can manage the risks effectively, consider:

- Whether the partners and staff are, or can reasonably become, sufficiently competent to undertake the engagement (this would include knowledge of the industry and subject matters and experience with the regulatory or reporting requirements);
- Access to any experts that may be required;

- Identification and availability of the individual assigned to perform the engagement quality control review (if required);
- Any proposed use of another auditor's or accountant's work (including any collaboration which may be necessary with other offices of the firm or network firms);
- The ability to meet the engagement's reporting deadline;
- Whether there are any actual or potential conflicts of interest;
- Whether any identified independence threats have or can have safeguards applied and maintained to reduce them to an acceptable level;
- The quality of the (potential) client's management, as well as those charged with governance and those who control or exert significant influence over the entity, including their integrity, competence, and business reputation (including consideration of any lawsuits or negative publicity surrounding the organization), together with present and past firm experience;
- The attitude of these individuals and groups towards the internal control environment and their views on aggressive or inappropriate interpretations of accounting standards (including consideration of any qualified reports that have previously been issued and the nature of the qualifications);
- The nature of the entity's operations, including its business practices and the fiscal health of the organization;
- Whether the firm is under pressure from the client to keep the billable hours (fees charged) at an unreasonably low level;
- Whether the firm expects any scope limitations;
- Whether there are any signs of criminal involvement; and
- Consideration of the reliability of the work done by the preceding firm and how this predecessor has responded to communications (this would include knowledge of the reasons the client left the previous firm).

If, after accepting or continuing an engagement, the firm receives information, which, if known earlier, would have resulted in a refusal of the engagement, the firm should consider whether to continue the engagement and will normally seek legal advice regarding its position and options to ensure that it meets any professional, regulatory, and legal requirements.

To assist firms with the client acceptance and continuance process, guidance is provided at **Appendix C**, which may be used to support the firm in the development of its policies and procedures.

3.3 New Client Proposals

An evaluation of a prospective client and authorized approval should precede issuance of any client proposal.

For each new engagement client, a review process must be undertaken, and it is suggested that this process be documented before the firm can accept the engagement, including an assessment of the risks associated with the client.

It is suggested that the firm make inquiry of personnel or third parties in making its determination of whether to consider a new client proposal. This may include speaking with the financial institution that the client deals with, and consulting with their legal counsel and other industry peers (subject to the privacy legislation and confidentiality requirements of the firm's jurisdiction). The firm may also engage in background searches, such as making use of any online information that may be readily available.

Once a determination has been made to accept a new client, the firm should meet the relevant ethical requirements (such as communicating with the former firm if required by the member body Code of Ethics) and prepare an engagement letter for signature by the new client.

3.4 Resignation of a Client Relationship

The firm should define the process to be followed when it has been determined that withdrawal from an engagement is necessary. This process will normally include:

- Consideration of the professional, regulatory, and legal requirements and any mandatory reporting which must be undertaken as a result;
- Meeting with the client's management and those charged with governance to discuss the facts and circumstances leading to the withdrawal; and
- Documenting the significant matters which led to the withdrawal including the results of any consultation, the conclusions reached, and the basis for these conclusions.

Case Study — Acceptance and Continuance

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

Marcel is required to establish policies and procedures for the acceptance and continuance of client relationships. Doing so will assist the firm in determining whether it has the necessary competencies within existing staff resources to perform the engagement. In addition, the firm must formally consider the integrity of the client prior to commencement of each engagement.

M.M. and Associates does not appear to have such policies or procedures in place. This is evidenced by Marcel's intention to seek out audits of listed entities with a staff complement of four,

none of whom is a professional accountant. Another example is the recent acceptance of a client with a suspect reputation.

Marcel may be placing greater emphasis on fee generation rather than formulating an effective process that firm personnel are able to consistently adopt when approaching each new potential client engagement. This can lead the firm to undertake riskier engagements that are driven by the size of the fee, rather than applying professional standards.

Marcel has work to do to meet the standard required of ISQC 1.26–.28.

His quality control manual could set out a policy of investigating new client applicants through enquiry of referral sources and others in the community, and web searches. Matters of staffing, competencies, and independence should be systematic, and included in acceptance and continuance questionnaires or checklists.

4. Human Resources

Chapter Purpose	*Primary Reference*
To provide guidance on the human resource components of effective quality control policies and procedures.	ISQC 1.29–.31

4.1 Overview

ISQC 1.29 states:

29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to:

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

    (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A24–A29)

The wealth of any firm is largely tied to the number and quality of the professional personnel employed by or providing services to the practice. It naturally follows that the success of the firm will be directly linked to the management of its personnel.

It is suggested that the firm appoint an individual responsible for all human resource functions. In smaller firms these functions may involve fewer and simpler procedures. For example, in the instance of performance appraisals, rather than a longer and more formal performance evaluation, the process may consist of a memorandum dated and signed by both the reviewer and staff member.

HELPFUL HINTS

The following functions may be assigned to the individual responsible for human resources:

- Maintenance of human resource policies;

- Identifying required policy changes resulting from labor laws and regulations, and to remain competitive in the marketplace;
- Providing guidance and consultation on human resource related matters;
- Maintenance of performance evaluation appraisal systems;
- As requested, recommending specific actions or procedures appropriate to the circumstance (for example discipline, recruitment);
- Scheduling of suitable professional development;
- Maintenance of personnel files (including annual declarations of independence, acknowledgement of confidentiality, and continuing professional development reports); and
- Development and delivery of orientation training.

4.2 Recruitment and Retention

To ensure it has the capacity and competence necessary to meet its clients' needs, it is necessary for the firm to routinely assess its professional service requirements. It is suggested that the firm consider the following:

- A detailed expectation of engagement requirements over the course of each calendar period in order to identify peak periods and potential resource shortages;
- Following standard job interview procedures, including documentation of the process;
- Maintaining standards for entry, intermediate, and senior level qualifications and provide candidates with an explanation of these expected qualifications during the recruitment process.

The firm may consider the development of orientation material and require all new personnel to attend an orientation session as soon as is practical after commencing employment. The orientation materials would typically include items such as a complete copy of the firm's policies and procedures, personnel policies and benefits handbook, accounting and assurance manuals which include the firm's forms and templates (if not available electronically), details on training programs (if applicable), and any other firm-specific information.

The firm may also consider establishing a probationary period for all new personnel (for example, three to six months from the date of hire), together with a performance review upon successful completion. New staff would be provided with close supervision and feedback during this period.

Providing opportunities for its personnel's career development will enhance the firm's ability to retain competent professionals, which will in turn support sustainability and continued growth.

It is desirable for the firm to periodically review the effectiveness of its recruitment program together with an assessment of its current resource needs to identify whether revisions to the program are required.

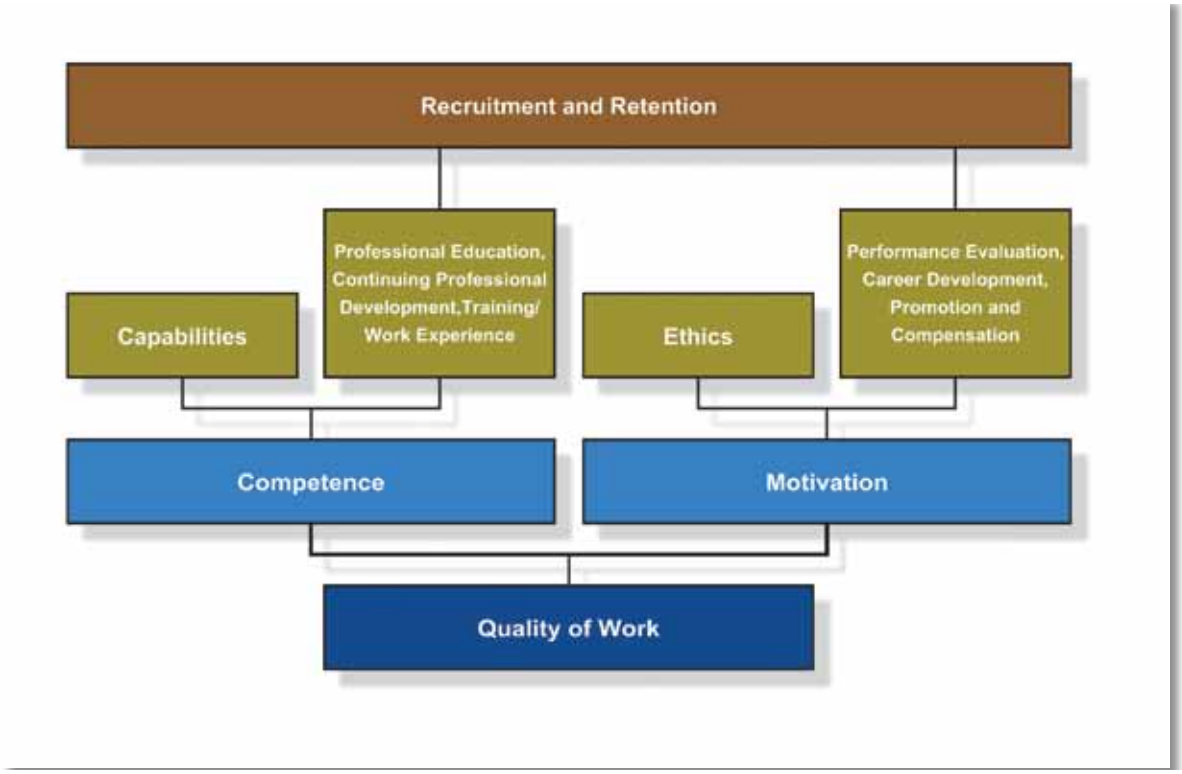
HELPFUL HINTS

Items to consider when the firm is seeking candidates for employment might include:

- Verifying academic and professional credentials and checking references;
- Clarifying gaps in time on candidates' resumes;
- Considering credit and criminal-record checks;
- Clarifying with candidates the firm's requirement to state in writing, annually and for each assurance engagement, whether they are independent and free of conflict of interest; and
- Informing candidates of the requirement to sign a declaration regarding understanding of and compliance with the firm's confidentiality policy.

A sample Declaration of Confidentiality is provided at **Appendix B**, which firms may use as a template.

Smaller firms may face even greater challenges than their larger counterparts as they compete for these limited resources with what is often perceived to be reduced opportunities for staff advancement, combined with lower salaries and benefits. Given these challenges, it is even more critical for smaller firms to plan their resourcing requirements (thus addressing the risk of staff burnout). It is useful to consider the cost of losing staff to a competitor when establishing adequate compensation ranges for the firm.



4.3 Continuing Professional Development

The IAESB's International Education Standard (IES) 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*, prescribes that IFAC member bodies implement a continuing professional development (CPD) requirement as an integral component of a professional accountant's continued membership. IES 8, *Competence Requirements for Audit Professionals*, prescribes competence requirements for audit professionals, and IFAC member bodies need to establish via policies and procedures that members satisfy these requirements. Additional continuing professional development requirements may be expected by member bodies or regulators in various jurisdictions.

A proposal worthy of consideration is to have the individual responsible for human resources within the firm approve attendance at external professional development courses.

It is suggested that partners and staff be responsible for maintaining their own professional development records (and, where applicable, adhering to the firm's guidelines). The individual responsible for human resources within the firm may choose to review these records annually with each partner or staff member in order to ensure the required training and continuing professional development has been undertaken and, if necessary, to determine appropriate actions to address any shortfalls.

4.4 Assignment of Engagement Teams

ISQC 1.30–.31 states:

30. 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 competence, capabilities and authority to perform the role; and

    (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30)

31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to:

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

    (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A31)

Through its policies and procedures, the firm ensures the assignment of appropriate partners and staff (individually and collectively) to each engagement. Primarily, the engagement partner plans the assignment of the engagement team (ISA 220.14). The engagement partner is also responsible for ensuring that the individuals assigned, and the engagement team as a whole, have the necessary competencies to complete the engagement according to professional standards and the firm's quality control system.

In the instance of a small firm, such engagement assignments may be worked out by simple discussion among the partners on future work planning.

The firm is responsible for ensuring that the engagement partner assigned to each engagement has the necessary competencies and enough time to assume overall responsibility for performing the engagement according to professional standards and applicable regulatory and legal requirements.

The engagement partner may also plan for coaching opportunities between junior and senior personnel to guide the development of less experienced staff.

When determining the appropriate personnel to assign to an engagement, particular attention will be given to their technical knowledge, qualifications and experience. Continuity with the client, balanced with rotation requirements, will also be considered.

The client's management and other parties responsible for the entity's governance should be informed of the identity and role of the engagement partner.

HELPFUL HINTS

In assessing an individual's competency levels for specific engagements, the engagement or managing partner would consider the individual's:

- Understanding of the engagements, along with experience and training in performing such engagements;
- Understanding of professional standards and the regulatory and legal requirements applicable to the engagement;
- Technical accounting knowledge and expertise;
- Understanding of the nature of the entity's operations and knowledge of specific industries, as appropriate;
- Ability and expertise to exercise professional judgment; and
- Understanding of the firm's quality control system.

Not all individuals within the engagement team will be required to be highly qualified in all of these areas. Those individuals with lower qualifications will be assigned less responsibility combined with more supervision from more experienced staff.

To assist with the process of assigning personnel to engagements (including suggested planning steps), **Appendix D** may be used to support the development of the firm's policies and procedures.

4.5 Enforcement of Quality Control Policies (Discipline)

The firm's quality control system requires more than just effective monitoring. An enforcement process is essential, and includes consequences and corrective procedures for non-compliance, disregard, lack of due care and attention, abuse, and circumvention.

The firm may designate an individual within the firm to manage the firm's disciplinary process. Corrective action is often best determined and administered through a consultative process, not in an autocratic fashion.

The process to follow is similar to that for resolving differences of opinion (see Section 5.5). It is suggested that this process include timely documentation by the individual responsible for human resources within the firm.

All-encompassing rules and procedures cannot completely address disciplinary issues and the type of disciplinary action to take. Accordingly, firm policies can only set out general principles and protocols that assist in the process of dealing with significant disciplinary matters.

It is suggested that the process for addressing disciplinary issues be objective, conscientious, open-minded, and reasonable in finding and facilitating a timely resolution to the matter. Nevertheless, the firm must defend its responsibility to manage risk, to uphold the professional responsibilities of independence, to avoid conflict of interest, and to act with professional competence and due care. Naturally, the sequence of disciplinary events determined will be dependent, in some regards, upon the labor laws within the firm's jurisdiction.

Serious, willful, and repeated infractions or disregard for firm policies and professional rules cannot be tolerated. Appropriate steps must be taken to correct the partner or staff member's behavior or terminate the person's relationship with the firm.

HELPFUL HINTS

Corrective action taken will depend on the circumstances. Such actions might include, but are not limited to:

- Interviewing the person(s) involved to establish the facts and discuss causes and solutions;
- Counselling and/or mentoring; and
- Conducting follow-up interviews to ensure compliance has improved or to caution the staff involved that stronger corrective action will otherwise be required to protect the interest of clients and the firm, such as:
  - Reprimand (either oral or written);
  - Mandatory requirement to complete defined continuing professional development;
  - Written record filed in the personnel file;
  - Employment suspension;
  - Termination of employment; or
  - Formal notification filed with the professional association's discipline committee.

4.6 Rewarding Compliance

It is important to reinforce and stress the firm's commitment to a strong and effective quality control system through positive reinforcement and recognition of compliance, leadership, innovation, training, development, and co-operation — including individual involvement and contribution to quality control, ethics, and integrity.

The use of performance appraisals is one way in which the firm provides personnel encouragement to continue their professional development, reinforces good behavior and performance, and offers an opportunity for constructive criticism. It is suggested that these appraisals not only consider performance on various engagements, but also incorporate feedback from a variety of supervisors (senior staff and partners), and to the extent that comments have been provided, from clients. These characteristics are considered in conjunction with technical knowledge, analytical and judgmental skills, ability to communicate (both verbal and written) and leadership and training skills.

It is suggested that compliance with the firm's quality control policies be considered and addressed in the specific and overall assessment of individual partners and staff on an ongoing basis and in the regularly scheduled personnel review process.

A proposal worthy of consideration it to assign appropriate weighting to the traits noted above in the overall assessment of job performance and in determining remuneration levels, bonuses, advancement, career development, and authority within the firm. Quality should figure prominently amongst such weighting.

Performance appraisals, conducted on a periodic basis, would normally include the form and content as defined by firm policy. These would normally include an evaluation of the personnel's training and developmental needs, goal setting, opportunities for career development and promotion, as well as compensation.

Case Study — Human Resources

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

A large part of the future success of Marcel's firm will depend on the decisions he is making today with respect to human resources. Marcel's practice could usefully employ the services of an experienced professional accountant to address some of the human resources issues that require his attention.

The first concern relates to the firm's recruitment and retention process. There is no process in place to help Marcel select individuals who possess the necessary competencies, nor is the element of integrity adequately considered in the selection of candidates. Marcel could seek assistance from a professional hiring agency, or reach out to his professional association to determine whether recruitment services might be available.

Standardized procedures should be developed which Marcel can employ when interviewing applicants. This will assist him in obtaining the information he needs to make an informed decision. In addition, a policy regarding the confirmation of candidate qualifications and reference checks is essential.

There is no mention of Marcel's awareness of any continuing professional development requirements. While this may not be a regulatory issue with the current staff, it is a requirement for Marcel, and a practical necessity for Deborah and other engagement staff members. Additionally, Marcel is neither mentoring his staff through coaching and training, nor is he building the skills set of the less experienced staff (which would pay dividends through increased productivity).

We are unaware whether any systematic responsibility is being taken for assignment to specific engagement teams, or for the skills set of the particular engagement team. It appears likely to be a function of personnel's available time, when this is only one of several considerations which should be factored into the decision of which staff to place on an engagement. More importantly, there is no evidence of proper planning, supervision (the majority of the staff are quite inexperienced and yet are expected to get along on their own with no opportunity for consultation) or review. In the case of Deborah, we find that she is reviewing her own work.

There is no formal performance evaluation process. It naturally follows that there is also little planned career development of the staff, nor mentoring provided on areas for improvement. This would be especially valuable to Bob, who needs some correction and guidance on file preparation, as indicated by his file documentation omissions.

Marcel needs to recognize that appropriate investment in personnel, and perhaps even

consideration to hire more experienced designated personnel, would pay dividends in terms of his firm's ability to service his existing clientele, as well as provide the facility to attract new clients.

Marcel might be well advised to delegate the entire HR function to an outside service or to seek the assistance of a qualified staff member. Policies should be developed for hiring, training, evaluation, compensation (including reward for high-quality work), and effective engagement supervision, including procedures that evidence performance of such policies.

Such steps would enable Marcel to meet the standard required of ISQC 1.29–.31.

5. Engagement Performance

Chapter Purpose	*Primary Reference*
To provide guidance on the elements involved in engagement performance, highlighting the role of engagement partner, planning, supervision, review, consultation, resolution of differences of opinion, and performance of the engagement quality control review.	ISQC 1.32–.41, ISQC 1.43–.44

5.1 Overview

ISQC 1.32–.33 states:

32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:
    (a) Matters relevant to promote consistency in the quality of engagement performance; (Ref: Para. A32–A33)
    (b) Supervision responsibilities; and (Ref: Para. A34)
    (c) Review responsibilities. (Ref: Para. A35)
33. The firm's review responsibility policies and procedures shall be determined on the basis that the work of less experienced team members is reviewed by more experienced engagement team members.

Through the established policies and procedures of its quality control system, the firm requires that engagements be performed according to professional standards and applicable regulatory and legal requirements.

The firm's overall systems are designed to provide reasonable assurance that the firm and its partners and staff adequately and properly plan, supervise, and review engagements and produce engagement reports that are appropriate in the circumstances.

HELPFUL HINTS

To facilitate partner and staff performance on engagements consistently and according to professional standards and regulatory and legal requirements, the firm may provide and maintain:

- Firm manuals and/or standardized engagement templates and procedures;
- Standardized communications and correspondence templates;
- Research tools and reference materials; and
- Guidance, training, and education policies and programs, including support for compliance with professional development requirements.

When performing any engagement, the engagement partner and staff should:

- Follow and adhere to firm planning, supervision, and review policies;
- Use (modifying as appropriate) the firm's templates for file preparation, documentation, and correspondence, as well as its software, research tools, and the signing and release procedures appropriate for the engagement;
- Follow and adhere to the ethical policies of the profession and the firm;
- Perform their work to professional and firm standards with due care and attention;
- Document their work, analysis, consultations, and conclusions sufficiently and appropriately;
- Complete their work with objectivity and appropriate independence, on a timely and efficient basis, and document the work in an organized, systematic, complete, and legible manner;
- Ensure that all working papers, file documents, and memoranda are initialled, properly cross-referenced, and dated, with appropriate consultation on difficult or contentious matters;
- Ensure that appropriate client communications, representations, reviews, and responsibilities are clearly established and documented; and
- Ensure that the engagement report reflects the work performed and intended purpose and is issued soon after the fieldwork is complete.

The *Guide to Using International Standards on Auditing in the Audits of Small-and Medium-sized Entities* (ISA Guide), Volume 1, Exhibit 4.2-1 contains a diagram articulating the relationship between the ISQC 1 elements (firm level) and those of ISA 220 (engagement level). A review of this material would serve to enhance an understanding of each of the respective standards requirements and interrelationships.

5.2 Role of the Engagement Partner

The engagement partner is responsible for signing the engagement report. As leader of the engagement team, this individual is responsible for:

- The overall quality for each engagement to which the engagement partner is assigned;

- Forming a conclusion on compliance with independence requirements from the client, and, in doing so, obtaining the information required to identify threats to independence, taking action to eliminate such threats or reduce them to an acceptable level by applying appropriate safeguards, and ensuring that appropriate documentation is completed;
- Ensuring that appropriate procedures regarding the acceptance and continuance of client relationships have been followed, and that conclusions reached in this regard are appropriate and have been documented (in the case of an audit engagement, ISA 220.12);
- Communicating promptly to the firm any information obtained that would have caused the firm to decline the engagement if that information had been available earlier, so that the firm and the engagement partner can take the necessary action (in the case of an audit engagement, ISA 220.13);
- Ensuring that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with professional standards and legal and regulatory requirements (in the case of an audit engagement, ISA 220.14);
- Supervising and/or performing the engagement in compliance with professional standards and applicable legal and regulatory requirements, and ensuring that the report issued is appropriate in the circumstances (in the case of an audit engagement, ISA 220.15);
- Communicating to key members of the client's management and those charged with governance his or her identity and role as engagement partner;
- Ensuring, through review of the documentation and discussion with the engagement team, that appropriate evidence has been obtained to support the conclusions reached and for the report to be issued (in the case of an audit engagement, ISA 220.16–.17);
- Taking responsibility for the engagement team by undertaking appropriate consultation (both internal and external) on difficult or contentious matters (in the case of an audit engagement, ISA 220.18); and
- Determining when an engagement quality control review should be performed in accordance with professional standards and firm policy; discussing significant matters arising during the engagement and identified during the engagement quality control review with the engagement quality control reviewer; and not dating the report until the review is complete (in the case of an audit engagement, ISA 220.19).

5.3 Planning, Supervision, and Review

All engagements the firm undertakes must be adequately planned, supervised, and reviewed according to the standards of the profession and the firm. The engagement partner remains responsible for the engagement and its performance regardless of any delegation that may take place in order to perform the work necessary to issue the report.

For smaller engagements, the size of the engagement team may be quite small (for example, in the case of a sole practitioner, it may include only one additional engagement team member). The relative size makes planning quite simple. For example, establishing the overall audit strategy need not be complex or time-consuming, and will vary according to entity size and complexity. In such instances, a brief memorandum prepared at the conclusion of the previous year's audit, based on the file review that highlights issues identified during the course of the audit, and updated to the current period after a discussion with management, could serve as a basis for the documented audit strategy.

5.3.1 Planning

Planning provides direction to engagements because:

- It informs the engagement team of their roles, responsibilities, and objectives, as well as important issues related to the engagement; and
- It outlines supervision and review responsibilities and other quality control procedures specific to the engagement.

In the case of an audit, it is additionally important because:

- It includes developing an overall audit strategy and preparing a detailed audit approach to performing an engagement; and
- It allows for the selection of appropriate audit procedures in response to assessed risks of material misstatement, through the design and implementation of appropriate responses to those risks in the context of verifying management's assertions.

It is best practice to have the engagement team start planning well before beginning the fieldwork to ensure that:

- Any significant issues that have been identified during the acceptance and continuance review are appropriately addressed;
- The partners and staff selected to work on the engagement are available, scheduled, and assigned;
- Training, business knowledge, and the necessary research for the engagement are in place;
- Third-party involvement and the work of specialists and other service providers are considered and secured;
- Independence and/or conflict issues are appropriately addressed or, if problems exist, the client has enough time to seek alternative services; and
- The engagement team is briefed to facilitate an understanding of each team member's respective objectives.

5.3.2 Supervision

Supervision occurs at various responsibility levels and is closely related to planning and review. The firm's policy would normally require those personnel in supervisory roles to:

- Address and communicate significant issues arising during the engagement, assess their implications, and modify the planned approach, if necessary;
- Monitor the engagement progress, including the efficiency and effectiveness of time spent on different elements of the engagement;
- Provide or arrange for assistance or necessary expertise on complex matters, judgments, estimates, and interpretations; and
- Identify and communicate other issues requiring further consultation or consideration during the engagement.

During the performance of the engagement, the supervisor is in the best position to synthesize all the accumulated information and assess whether the plan needs to be changed or extended in order to obtain enough evidence to ensure that the report will be appropriate in the circumstances.

5.3.3 Review

It is suggested that all engagement work performed by partners and staff be reviewed according to the firm policy regarding the nature of the engagement. Individuals chosen to conduct these detailed reviews must be sufficiently capable and experienced, and will be delegated by the engagement partner, who is ultimately responsible for reviewing the work of the engagement team. The firm policy must also require that less experienced personnel have their work reviewed on a timely basis by more senior professionals.

It is suggested that the engagement partner conduct timely reviews of critical areas of judgment, especially those relating to difficult or contentious matters, significant risks, and any other areas the engagement partner considers important at appropriate stages during the engagement, to enable significant matters to be resolved on a timely basis. The engagement partner need not review the entire documentation, but may choose to do so. However, the review must be documented, including the extent and timing of the review. The requirement to document who reviewed the work performed does not imply a need for each specific working paper to include evidence of review; however, it does mean documenting what work was reviewed, who reviewed the work, and when it was reviewed.

The review is best facilitated through the use of standardized engagement templates that are appropriate for the engagement level.

The file completion review may consist primarily of confirming that partners and staff have signed off on the working papers and engagement transmittal control sheets, signaling the completion of the required review process. A finalization review meeting of the engagement partner, engagement quality control reviewer, second partner (where appropriate), and key engagement team members may be an effective way to ensure all participants have agreed on the important issues and are satisfied with the engagement work and release of the engagement report.

5.4 Consultation

ISQC 1.34 states:

34. 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, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and

    (d) Conclusions resulting from consultations are implemented. (Ref: Para. A36–A40)

It is suggested that the firm encourage consultation among the engagement team and with others inside, and, with authorization, outside the firm. Internal consultation uses the firm's collective experience and technical expertise (or that available to the firm) to reduce the risk of error and improve the quality of engagement performance. A consultative environment improves the partners' or staff's learning and development process and adds strength to the firm's collective knowledge base, quality control system, and professional capabilities.

For any significant, difficult or contentious issue identified during planning or throughout the engagement, it is proposed that the engagement partner consult with those who have the appropriate experience, knowledge, competency, and authority. This may be with other partners or staff or, if necessary, suitable external parties. All professionals within the firm should be willing to assist each other in dealing with and reaching conclusions on such problematic issues.

It is advised that the firm ensure the availability of sufficiently skilled personnel and financial and information resources to allow appropriate internal or external consultations to take place. If internal resources are not available, other sources may include other firms with whom the firm has an alliance, professional member bodies, regulatory bodies, or specialist firms that offer consulting services.

When internal consultation is sought and the issue is determined to be significant, the engagement team shall document the consultation and the result. When external consultation is required, and authorized by the engagement partner, the situation should also be documented. It is suggested that the external provider's opinions or positions be sufficiently documented to allow file readers to understand the full extent of the nature of the consultation, the external provider's qualifications and relevant competencies, and the course of action recommended.

It is both advised and necessary that the external provider be supplied with all relevant facts to be able to provide informed advice. When seeking advice, it is not appropriate to withhold facts or direct the information flow in order to get a particular desired result. The external provider is normally independent of the client, free of conflict of interest, and held to a high standard of objectivity.

If the advice is not implemented or is substantially different from the conclusion, an explanation documenting the reasons and alternatives considered, with (or cross-referenced to) the consultation record, is proposed to be provided by the engagement partner.

If more than one consultation is completed, a summary of the general discussions and range of opinions or options provided is suggested to be added to the working papers and the final position(s) adopted and the reasons for this documented.

For all external consultations, privacy rights (if applicable) and client confidentiality requirements must be observed. It may be necessary to seek legal advice on these or other issues regarding ethics, professional conduct, or regulatory and legal matters.

HELPFUL HINTS

Suggested issues on which partners and staff might be instructed to consult with qualified professionals within the firm (or, where appropriate, externally) could include:

- A probable going-concern issue;
- Suspected or discovered fraud or other irregularities;
- Questions about management's integrity;

- The need to qualify the report for the current year;
- A proposed restatement of prior-year financial statements;
- A significant third-party claim against the client and the firm;
- Significant, complex and/or new accounting or auditing treatment;
- Trouble in the industry or industry segment;
- A change in key members of management;
- Accounting or auditing issues arising from an environmental risk;
- Substantial reorganization of the client's business; and
- A plan to become a listed entity.

To assist with the process of consultation, **Appendix E** is provided to support the development of firm policies and procedures.

5.5 Differences of Opinion

ISQC 1.43–.44 states:

43. 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. A52–A53)

44. Such policies and procedures shall require that:

    (a) Conclusions reached be documented and implemented; and

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

No encompassing rules and procedures can easily and completely address dispute resolution in advance. Firm policy can only establish general steps to follow, which can assist in dealing with significant disputes or differences of opinion.

It is suggested that the firm and its partners and staff take any steps necessary, according to firm and professional standards, to adequately identify, consider, document, and resolve differences of opinion that may arise in a wide range of circumstances. The more common circumstances in practice include:

- Differences of opinion on interpretations and applications of IFRSs and ISAs;
- Differences of opinion on ethics-related matters and/or the requirements in the IESBA Code;[12]
- Disagreements on the economic substance of a transaction or series of transactions, or the levels of detail required in the documentation for engagement files;

12 Or member body code of ethics

- Differences of opinion resulting from the engagement and quality control review process;
- Change and resistance to change in firm practices, policies, and structures; and
- Differences of opinion on the suitability and competencies of engagement personnel.

It is desirable that all partners and staff strive to be objective, conscientious, open-minded, and reasonable in assisting, facilitating, or reaching a timely and non-confrontational resolution of any disputes or differences of opinion.

It is suggested that anyone who is party to a dispute or difference of opinion attempt to resolve the matter in a timely, professional, respectful, and courteous manner through discussion, research, and consultation with the other individual(s).

If the matter cannot be resolved or there is uncertainty over what action should be taken, the parties would normally refer the matter to a more senior engagement team member or the engagement partner.

It is advised that if the issue involves a specific area of professional oversight or practice administration within the firm, it be referred to the partner responsible for this area, preferably by the engagement partner. The engagement partner, or the partner responsible for the specific area, would consider the matter and decide, through consultation with the parties, how to resolve it. It is suggested that the partner then inform the parties of the decision and the reasons behind it.

If a dispute or difference of opinion remains, or one or more of the individuals involved is not satisfied with the decision(s), the individual(s) may consider whether the matter is enough of a quality control concern or may be of sufficient impact to warrant referral to the highest level of authority within the firm.

It is proposed that the firm policy developed protect all partners and staff from any form of retribution, career limitation, or punitive actions for bringing attention to a legitimate and significant issue, in good faith and with the true interests of the public, client, firm, or co-worker in mind.

It is important for partners and staff to understand that referring a matter beyond an engagement team or engagement partner level is serious and must not be minimized since it will likely require substantial partner time to address. The referral can be verbal if highly sensitive or confidential (although the practice of verbal referrals is discouraged), or in writing. In all cases, the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement shall be documented. It is suggested that the party to whom the matter is referred consider the issue, and if it is determined to be significant and with merit, to consult with other partners and inform the parties involved of the firm's decision.

If the individual is still not satisfied with the matter's resolution and no further recourse is available within the firm, the individual will need to consider the matter's significance, along with his or her professional responsibilities and position or continuing employment with the firm.

Disputes or differences of opinion should be documented in the same way as consultations for any matter involving an assurance engagement. In all instances, the engagement report must not be dated until the matter is resolved.

It is suggested that written partnership agreements set out dispute resolution and partnership dissolution policies to follow when the disagreement proves too difficult to settle amicably.

HELPFUL HINTS

Suggested policy might set out the following steps to manage a difference of opinion:

- Consideration of all relevant facts and the reasons for the difference of opinion;
- Consideration of all available research material;
- Consideration of the views of senior partners and staff within the firm; and
- Mediation between the parties to determine whether concurrence can be obtained.

5.6 Engagement Quality Control Review (EQCR)

ISQC 1.35–.41 states:

35. 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; and (Ref: Para. A41)
    (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b).
36. The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review. (Ref: Para. A42–A43)
37. The firm shall establish policies and procedures to require the engagement quality control review to include:
    (a) Discussion of significant matters with the engagement partner;
    (b) Review of the financial statements or other subject matter information and the proposed report;
    (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
    (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44)

38. For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also 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 documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A45-A46)

Criteria for the Eligibility of Engagement Quality Control Reviewers

39. 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; and (Ref: Para. A47)
    (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (Ref: Para. A48)
40. The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. (Ref: Para. A49–A51)
41. 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.

The EQCR is designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report, including whether the engagement report is appropriate.

All engagements should be assessed against the firm's established criteria (see below) to determine whether an EQCR shall be performed (ISQC 1.35 and, in the case of an audit engagement, ISA 220.19). In the case of a new client relationship, it is helpful, before the engagement is accepted, to make this assessment, and, in the case of a continuing client, it is helpful to make this assessment during the planning phase of the engagement.

The engagement partner should resolve all issues raised by the EQCR, and must be satisfied that appropriate discussion and implementation of any issues has been completed, before dating the assurance engagement report.

For audits of financial statements of listed entities and other engagements where an EQCR is conducted, the engagement report shall not be dated until the completion of the EQCR. It is also suggested that significant public sector entity audits be included in the firm policy's requirements for EQCR.

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Criteria for Determining When To Have an EQCR

The following items are not required criteria under the ISQC 1 and are presented for consideration during the firm's policy development process. Each firm will determine its own EQCR criteria.

A completed quality control review may be considered for engagements before dating an engagement report when:

- It is part of a set of safeguards applied where the engagement partner has a significant and recurring independence threat resulting from a prolonged close personal relationship or close business relationship with the client, which had been previously reduced to an acceptable level by other safeguards;
- An identified threat to independence involving the engagement partner is recurring and deemed significant, but use of an EQCR may reasonably reduce these threats to an acceptable level;
- The engagement's subject matter relates to organizations that are important to specific communities or the general public;
- A large number of passive shareholders, equivalent-ownership unit holders, partners, co-venturers, beneficiaries, or other similar parties receive and rely on the engagement report;
- There is significant risk identified and associated with the decision to accept or continue the engagement, as set out in Chapter 3, *Acceptance and Continuance of Client Relationships and Specific Engagements*;
- There are questions about an entity's ability to continue as a going concern, and the potential impact to third-party users (other than management) is significant;
- Substantial impacts and risks to users involve new and very complex specialized transactions, such as derivatives and hedges, stock-based compensation, unusual financial instruments, extensive use of management estimates, and judgments that potentially have significant impact to third-party users;
- The entity is a large private entity (or related group under the responsibility of the same engagement partner); and
- The total fees paid by the client represent a large proportion to either an individual partner or of the firm's annual gross revenue (for example, greater than 10–15%).

Additionally, there may be factors which trigger an engagement quality control review after an engagement has already commenced. These may include situations where:

- The risk of the engagement has increased during the engagement, for example, where the client becomes the focus of a takeover;
- There is concern among engagement team members that the report may not be appropriate in the circumstances;

- New and significant users of the financial statements are identified;
- The client is subject to significant litigation which was not present during the engagement acceptance process;
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement are a concern;
- There have been disagreements with management on significant accounting matters or audit scope limitations; and
- There have been scope limitations.

5.6.1 Nature, Timing, and Extent of an Engagement Quality Control Review

The engagement partner must review the file before an EQCR. This is necessary as the engagement quality control reviewer must perform an objective evaluation of the significant judgments made by the engagement team. The decision to conduct an EQCR, even if the engagement meets the criteria detailed above, and the extent of the EQCR, would depend on the engagement's complexity and associated risks. An EQCR does not diminish the engagement partner's responsibility for the engagement.

The EQCR would include, as a minimum (ISQC 1.37 and, in the case of an audit engagement, ISA 220.20):

- Discussion of significant matters with the engagement partner;
- Review of the financial statements or other subject matter information and the proposed report;
- Review of selected working paper file documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.

It is suggested that the firm use a standardized engagement quality control checklist in order to complete the review and provide appropriate documentation of such review.

To assist with the engagement quality control review, **Appendix F** is provided to support the development of a standardized firm checklist with suggested procedures.

For listed entities (and other organizations included in the firm's policy), the EQCR shall also consider (ISQC 1.38):

- The engagement team's evaluation of the firm's independence in relation to the specific engagement;
- 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
- Whether documentation selected for review reflects the work performed in relation to the significant

judgments made and supports the conclusions reached.

It is recommended that the professional responsible for the EQCR be involved early in the engagement process to allow for timely review on any significant issues that arise during the engagement. It may therefore be beneficial to perform parts of the review as the engagement progresses, which will allow for quick resolution of such issues.

The firm may consider the allowance of a minimum number of days from the release date (for example, five business days) for the EQCR, with two of those five days allocated for clearance of the review and completion. The time allowed for larger, more complex engagements will naturally be substantially longer.

5.6.2 Engagement Quality Control Reviewer (QCR)

The firm is responsible for establishing criteria for the appointment of any quality control reviewer (QCR) for the engagement and must also determine his or her eligibility.

The QCR should be objective and independent and have sufficient training, experience, technical expertise, and authority, as well as the ability and time to fulfill this role. The characteristics commonly attributed to a candidate suitable to serve in this role include superior technical knowledge of current accounting and assurance standards and a breadth of experience which would be exhibited at a senior level.

The QCR cannot be a member of the engagement team and cannot, directly or indirectly, review his or her own work, or make important decisions regarding the performance of the engagement. More than one qualified reviewer can perform the EQCR in order to provide the expertise needed to perform the review effectively.

Consultation among qualified professionals who serve the QCR function is encouraged, and it is not unusual, particularly in the instance of smaller firms, for the engagement team to consult with the QCR during the engagement. This would not normally compromise the reviewer's objectivity, as long as the engagement partner (and not the QCR) makes the final decisions and the nature and extent of the consultation is not overly significant. This process can avoid differences of opinion later in the engagement.

If the objectivity of the QCR becomes compromised following a consultation on a specific matter, it is advised that the firm appoint an alternate QCR.

In the case of smaller firms, external professionals may serve in the capacity of QCR provided they are suitably qualified and meet the necessary independence requirements.

Case Study — Engagement Quality Control Review

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

Marcel does not at this point have any listed entities as clients, and therefore has determined not to have engagement quality control reviews (EQCR) performed on any of his engagements.

Marcel may, in addition to listed entities, adopt policies requiring an EQCR on other engagements that meet specific policy criteria. These include, for example, audits of entities with higher risk assessments, or other assurance engagements where there exists a threat to independence and an EQCR may eliminate the threat or reduce it to an acceptable level. He does perform a number of audits, some fairly sizable, and certain of these clients may present challenges, such that the performance of an EQCR would seem wise in the circumstances.

Presuming that Marcel has already implemented the requirements, he is likely to have concluded that the function would need to be outsourced. Due to the relative inexperience of his entire personnel, it would be impossible for him to delegate responsibility.

If this were your firm, would you wish to perform an EQCR on the local government agency given the possible threat of familiarity (Marcel has known them for years), the risk (allegations of corruption), and the fact that it is a public sector entity?

What about the retirement home? This client may be experiencing going-concern issues (the fees are unpaid after almost a year), and the firm is facing an independence threat (fees-overdue).

A formal process designed to guide personnel through the consideration of whether to perform an EQCR for a particular engagement will permit early planning, and will ensure that the person responsible for conducting the EQCR is available when expected. This process will also help personnel assess circumstances under which it might be wise to conduct the EQCR even when the standard might not strictly require it (such as in those instances where the engagement has been identified as higher risk).

Marcel still has some work to do to meet the requirements of ISQC 1.35–.37.

6. Monitoring

Chapter Purpose	*Primary Reference*
To provide guidance on the monitoring of the firm's policies and procedures relating to the system of quality control, including the firm's monitoring program, inspection procedures, the monitor's report, addressing and removing deficiencies, and responding to complaints and allegations.	ISQC 1.48–.56

6.1 Overview

ISQC 1.48 states:

48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. This process shall:
    (a) Include an ongoing consideration and evaluation of the firm's system of quality control, including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
    (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. A64–A68)

Quality control policies and procedures are a key part of the firm's internal control system. Monitoring consists primarily of understanding this control system and determining — through interviews, walk-through tests, and inspections of engagement files and other documentation relevant to the operation of the quality control system (for example, training and continuing professional development records and independence confirmations)— whether, and to what extent, this control system is designed and operating effectively. It also includes developing recommendations to improve the system, especially if weaknesses are

detected or if professional standards and practices have changed.

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It is proposed that the firm develop monitoring policies and procedures which would include objective consideration and evaluation of:

- The degree of compliance with quality control policies and procedures, and adherence to professional standards and regulatory and legal requirements;
- The relevance and adequacy of the quality control policies and procedures;
- How current and consistent policies and procedures are with developments in the profession;
- The firm's quality assurance and ethics culture (including evidence that there is written confirmation of compliance with policies and procedures as they relate to independence);
- The effectiveness of professional education and development activities;
- The appropriateness of the guidance materials and technical resources provided;
- The firm's internal inspection processes;
- The content, timing, and effectiveness of communications to firm members concerning quality control issues (including information on weaknesses within the system which have been identified and any corrective actions to be taken, as well as suggested improvements to the system as a result of any evaluations); and
- Determination of the effectiveness of the follow-up once the process has been completed (for example, are the necessary modifications undertaken on a timely basis).

The firm relies on every partner and staff member at all levels to informally monitor and enforce quality, ethics, and professional and firm standards. This monitoring is inherent in every aspect of professional work. Partners and staff who are in a position to make decisions or oversee the work of others have a greater level of responsibility.

It is suggested that the firm also consider any feedback received from the relevant professional body's practice inspection and licensing regime (if applicable). This must not act, however, as a substitute for the firm's own internal monitoring program.

Monitoring mechanisms the firm may employ include:

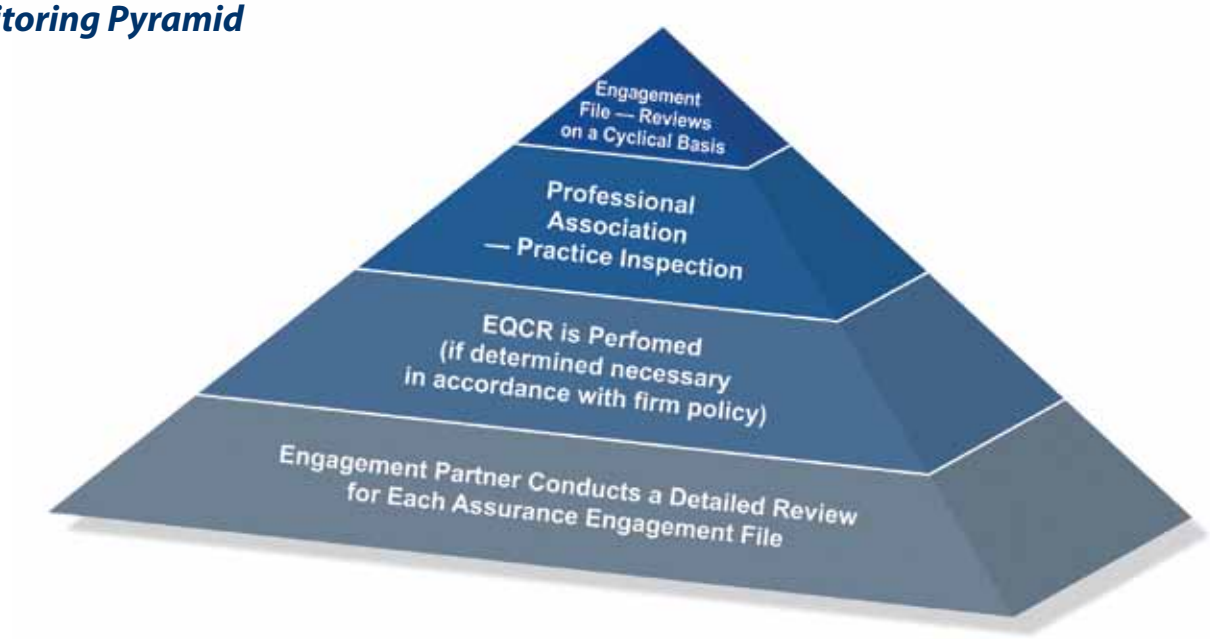
- Internal and external education and training programs;
- Requirements that partners and staff know, understand, and enforce the firm's policies and procedures for engagement reviews, quality control reviews, and engagement partner approvals;
- A policy statement instructing partners and staff not to release any engagement financial statement information of any kind unless all necessary approvals are signed off;

- The firm's standard engagement completion and release control system, which outlines the required approvals and sign-offs by engagement type, function, and individual responsible;
- Instructions to the engagement partner and engagement quality control reviewer to monitor the appropriate approvals on an ongoing basis;
- Instructions to all partners and staff to advise appropriate senior personnel within the firm when they observe significant or repeated smaller breaches of firm policies or protocols; and
- In making an assessment of scope, periodic practice reviews conducted by the professional association or institute or regulator (if applicable).

The decision either to contract with an independent party or set up an internal monitoring system, and its terms of reference, will vary from firm to firm. It will also depend upon the firm's resource levels at the time of the inspection and its ability to conduct the program effectively. This determination is normally made at each inspection cycle by the individual within the firm who has been designated this authority, through consultation with all partners.

In the case of smaller firms, external professionals may serve in the capacity of monitor provided they are suitably qualified, or the firm may opt to contract with another firm with whom they have an alliance.

Monitoring Pyramid



To assist with the process of quality control system monitoring, **Appendix G** is provided to help firms determine considerations for the monitoring procedures.

6.2 Monitoring Program

The responsibility for monitoring the application of quality control policies and procedures is separate from the overall responsibility for quality control. The purpose of the monitoring program is to assist the firm in obtaining reasonable assurance that its policies and procedures relating to the system of quality control are

relevant, adequate, and operating effectively. The program is also intended to help ensure compliance with practice and applicable legal and regulatory requirements.

Each firm implements quality control standards by designing and implementing a quality control system sufficient for the size and nature of its practice and engagements. It is suggested that the system be designed in order to provide the firm with reasonable assurance that significant and/or sustained breaches of policy and quality control are unlikely to occur or go undetected.

For monitoring to be effective, all partners and staff need to co-operate with the monitor, recognizing that this individual is an essential part of the quality control system. Support of the partners and managers of the process and to reinforce the monitor's comments and findings is of particular importance. Disagreement, non-compliance with, or disregard for the monitor's findings may be resolved through the firm's dispute resolution process as described in Section 5.5.

It is proposed that compliance monitoring be designed to provide an objective assessment of:

- Adherence to professional standards and applicable legal and regulatory requirements;
- Appropriateness of the engagement reports;
- Determination of whether appropriate and sufficient consultation has taken place on difficult or contentious issues;
- Determination of whether there is sufficient and appropriate documentation applicable to the work performed; and
- Assessment of whether the firm's quality control policies and procedures have been appropriately applied.

6.3 Inspection Procedures

Monitoring the firm's quality control system can be an ongoing or periodic process. As part of the monitoring program, the firm shall inspect a selection of individual engagements, which may be chosen without prior notification to the engagement team. Although it is desirable to select one or more completed and released engagements, for each engagement partner at each inspection, the firm may choose to inspect a number of engagements annually, with an eye to ensuring that each partner's files are selected on at least a cyclical basis.

In either case, the selection of individual engagements for inspection is done on a cyclical basis, for example, with the inspection cycle spanning not more than three years.

In order to ensure an impartial and objective assessment of a file, those involved in the engagement team or serving the EQCR function should not be eligible to act as a monitor on the same file.

For smaller firms, inspection monitoring procedures may need to be conducted by the same personnel who designed and implemented the firm's quality control policies and procedures. Such individuals will be intimately familiar with the firm's requirements, and will be uniquely positioned to identify areas for improvement. Alternatively, the firm may use the same individuals who are used to perform the EQCR function provided that the individual performing a file inspection for monitoring purposes was not on the engagement team and did not perform an EQCR on the file. In the case of engagement inspections, if internal resources are not available, other sources of assistance in this area may include other firms with

whom the firm has an alliance, or professional member bodies who offer this service.

Network firms may choose to implement monitoring on a network basis, if the network firm employs common monitoring policies and procedures. However monitoring is organized, the firm's policies and procedures should require communication to appropriate persons, on an annual basis, the scope, extent, and results of the monitoring, and must include immediate notification of identified deficiencies in the quality control system so that corrective action can be taken.

Many factors will impact the way in which the inspection is designed. Planning the organization of the inspection process would normally include factors such as:

- The size of the firm;
- The nature and complexity of the firm's practice;
- The risks associated with the client base and the types of engagement services provided;
- The number of offices and the geographical location of the offices;
- An overview assessment of the functioning and compliance of each separate office (if applicable);
- The results of previous inspections and external monitoring completed by professional or governing regulatory bodies; and
- The degree of authority given to firm members, divisions, and offices.

Documentation of inspections may include:

- An evaluation of adherence to professional standards and applicable regulatory and legal requirements;
- The results from evaluating elements of the quality control system;
- An evaluation of whether the firm has appropriately applied quality control policies and procedures;
- An evaluation of whether the engagement report is appropriate in the circumstances;
- Identification of any deficiencies, the underlying reasons why they arose, their effect, and a decision on whether further action is necessary, describing this action in detail; and
- A summary of results and conclusions reached (provided to the firm), with recommendations for corrective actions or changes needed.

It is best practice for engagement partners to meet to review the report (along with other appropriate personnel) and decide on the corrective action and/or changes to make to the system, roles and responsibilities, disciplinary action, recognition, and other matters as determined.

6.4 Report on the Results of Monitoring

The firm shall communicate to all engagement partners and other appropriate staff, including the firm's chief executive officer or, if appropriate, managing board of partners, information on the results of the monitoring process at least annually, including a detailed description of the monitoring process and its conclusions on the firm's overall compliance and effectiveness.

The report should, at a minimum, include:

- A description of the monitoring procedures performed;

- The conclusions drawn from the monitoring procedures; and
- Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken, together with any further recommended actions, to resolve these deficiencies.

HELPFUL HINTS

The firm may wish to have the monitor cover additional items as part of the process. Consideration may be given to including:

- The number and types of files inspected;
- General comments based on the inspections;
- Common deficiencies or areas in need of improvement, together with the underlying reasons why they occurred;
- A detailed review of issues indicating a need to revise or update the quality control system or related guidance;
- Specific matters that need to be addressed by the partner responsible for the file (for example, missing representation letters and the like);
- Recommendations for policy development or improvement and for new or adjusted control systems to ensure the policies are properly applied;
- Comments on the firm's culture regarding quality control issues — both at the top and among other partners and staff;
- Comments on the firm's professional development and training process;
- An overview of the existing quality control systems and policies;
- An overview of the periodic assessment process, including the nature, timing, and extent of the work performed and the interviews conducted;
- Findings, including policies that are inadequate or not in accordance with current standards, incidents of significant non-compliance with policy at the firm level and engagement level, and other issues identified; and
- A summary of changes in the profession or in applicable professional standards that indicate revisions to the quality control system or related documentation are, or soon will be necessary.

To assist firms with the monitoring program, guidance is provided at **Appendix H**, which may be used as the basis for the monitor's report.

6.5 Evaluating, Communicating, and Remedying Deficiencies

ISQC 1.49–.54 states:

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

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

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

50. 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. A69)

51. Recommendations for appropriate remedial actions for deficiencies noted shall include 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.

52. The firm shall establish policies and procedures to address cases 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. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements and to consider whether to obtain legal advice.

53. The firm shall communicate at least annually the results of the monitoring of its system of quality control 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. This 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; and

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

54. Some firms operate as part of a network and, for consistency, may implement some 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 system of quality control 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 advise otherwise.

It is suggested that the firm develop policies and procedures that will permit it to address all deficiencies the monitoring program detects (except those that are trivial or inconsequential). It should consider whether these deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by a particular partner or staff member.

Structural flaws will generally be indicated by deficiencies that occur frequently and that originate with, but are not detected by, different partners or staff. These cases may require changes to the quality control or documentation system. The monitor shall refer these changes to the partner or staff member responsible for the quality control or documentation system so that the correction can be made.

The firm should consider significant deficiencies and follow professional standards and regulatory and legal requirements if it appears it issued an inappropriate engagement report or that the engagement report's subject matter contained a misstatement or inaccuracy. In such a circumstance, the firm should also consider obtaining legal advice.

If deficiencies are determined to be systemic or repetitive, prompt corrective action will be necessary. In most cases, deficiencies related to independence and conflict of interest will require immediate corrective action.

In addition, the partner or staff member responsible for training and professional development may review the detected deficiencies to determine whether courses or supplemental education could effectively address some of the issues behind the deficiencies.

6.5.1 Non-compliance

Non-compliance with the firm's quality control system is a serious matter, particularly if a partner or staff member has willfully refused to comply with firm policy.

Since the quality control system is in place to protect the public interest, the firm must address willful non-compliance transparently and rigorously. It can generally address willful non-compliance in a number of ways, including instituting a plan to improve performance, performance reviews and reconsideration of opportunities for promotion and increased compensation, and ultimately termination of employment.

A partner's willful non-compliance, however, is very difficult to address. Each firm needs to develop a process for disciplining partners, if this is not already covered in the partnership agreement or other contract governing the relationship among partners. The ultimate outcome of this process is the future compliance of both partners and staff with the quality control system. To provide assurance that this will occur, it is proposed that the process outline the consequences of future non-compliance. It is also suggested that these consequences be greater than those imposed for the current non-compliance, to indicate that future non-compliance will not be tolerated.

In some circumstances, it may be appropriate to impose a temporary oversight regime for partners or staff who have difficulty complying with the quality control system. This could include requiring another partner to review the work performed, or having the monitor assess the work before release of the engagement report. An alternative could be to restrict the types of work these partners or staff can perform, for example, restricting involvement in engagements of larger entities, on either a temporary or a permanent basis.

Case Study — Monitoring

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

The case study is silent on the issue of whether or not Marcel has a monitoring system in place, but it is fairly safe to presume that it is non-existent.

Marcel must establish a monitoring process in accordance with ISQC 1.48, as well as report to the appropriate personnel within his firm the results and recommendations of the monitor.

Given the size of Marcel's firm the ideal candidate to perform the monitoring function is likely a suitably qualified external consultant, such as another local practitioner, or a public practice advisor from his local Association or Institute.

6.6 Complaints and Allegations

ISQC 1.55–.56 states:

55. 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 legal and applicable regulatory requirements; and

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

    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. A70)

56. If during the investigations into complaints and allegations, 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 are identified, the firm shall take appropriate actions as set up in paragraph 51. (Ref: Para A71–A72)

Complaints and allegations — particularly concerning failure to exercise a duty of care in relation to client work, a violation of privacy (if applicable) or confidentiality, conflict of interest, or any form of discrimination or harassment by partners or staff toward each other or clients — are serious matters. In addition to the dispute resolution mechanisms set out in Section 5.5 of the Guide, the partner responsible for such matters might seriously consider notifying the firm's professional liability insurance company and/or seeking legal advice. If there is any uncertainty, he or she may consult other partners, the practice advisor provided by the professional body, or trusted professional colleagues.

HELPFUL HINTS

It is advised that the firm consider all of the functions that are required in order to deal with complaints and allegations, for example:

- Maintaining all complaint and allegation policies;
- Receiving all reports that relate to complaints and allegations;
- Providing guidance and consultation on complaint and allegation matters to those who serve in a supervisory capacity;
- Providing documentation on these matters, including receipt of the complaint, findings of the investigation, and final outcome;
- Reporting to the complainant; and
- Conducting or providing supervision for all investigations.

Firm policy must provide for policies and procedures to deal with various types of complaints and allegations, including:

- Claims that the work performed fails to comply with professional standards and regulatory and legal requirements;
- Claims of non-compliance with the firm's quality control system; and
- Claims that the design or process of the firm's quality control policies and procedures are deficient.

The investigation of such matters is assigned to a partner with sufficient and appropriate experience and authority. If this partner also happens to be party to receipt of a complaint on a particular engagement, an alternate must be appointed to complete the investigation.

It is suggested that any complaint from a client or other third party be given a priority commensurate with

its significance. Normally, this would include an initial acknowledgement together with a commitment that the matter is being attended to, and explanation that a response will be forthcoming after it has been appropriately investigated.

A clearly defined process will make it clear to all partners and staff the procedures to be followed if a complaint or allegation arises and to whom the matter should be reported. The results from this process are normally documented together with the response. It is proposed that, at a minimum, these procedures include:

- Identification of the facts of the situation after conducting interviews and/or inspection of the relevant documents;
- Determination by reference to laws, regulations, professional standards, and firm policies (where applicable) whether there has been a breach, the nature and extent of the incident, and the consequences;
- After consultation with the appropriate individual within the firm, requiring that legal counsel be considered, and if appropriate, retained;
- Development of a findings report, including any recommendations; and
- Response to the complainant.

In the case of smaller firms, consideration may be given to hiring an external consultant to handle such matters. However, the smaller firm policy may be quite simple and straightforward, stating that the firm will adequately and seriously consider the matter in an open minded, responsible, and respectful manner and take appropriate action, including consideration of the user of an independent party, seeking legal advice, and informing the professional liability insurer if deemed necessary.

The process will not be effective unless all partners and staff feel free to raise concerns without fear of reprisal.

Case Study — Complaints and Allegations

For details of the case study, refer to the Introduction to the Case Study in the Guide.

M.M. and Associates

This is an area where Marcel appears to have no difficulty. The firm has apparently had no experience with complaints and allegations, and the firm's clients report that they are satisfied.

Nonetheless, Marcel must still establish appropriate policies and procedures in order to be prepared should such a circumstance arise if he is to comply fully with the standard of ISQC 1.55–.56. Ensuring that these policies and procedures are in place will guide personnel through the process should such a circumstance be encountered.

7. Documentation

Chapter Purpose	*Primary Reference*
To provide guidance on the firm's requirements for documentation, both at the engagement level (including engagement quality control review) and for the firm's system of quality control.	ISQC 1.42, ISQC 1.45–.47, ISQC 1.57–.59

7.1 Overview

ISQC 1.42 states:

Documentation of the Engagement Quality Control Review

42. 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 on or before the date of the report; 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 it reached were not appropriate.

ISQC 1.45–.47 states:

Completion of the Assembly of Final Engagement Files

45. 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. A54–A55)

7.1 Overview

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

46. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A56–A59)

Retention of Engagement Documentation

47. 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. A60–A63)

ISQC 1.57–.59 states:

Documentation of the System of Quality Control

57. 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. A73–A75)

58. 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.

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

7.2 Documentation of the Firm's Policies and Procedures

The firm develops policies and procedures that specify the level and extent of documentation required in all engagements and for general firm use (as established in the firm manual/ engagement templates). It must also establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

These policies ensure that documentation is sufficient and appropriate to provide evidence of:

- Adherence to each element of the firm's quality control system; and
- Support for each engagement report issued, according to professional and firm standards and regulatory and legal requirements, together with evidence that the EQCR has been completed on or before the date of the report.

The policies are often simply embedded in the firm's engagement templates in the form of standard communications, questionnaires, checklists, and memoranda. This practice works well to ensure consistent application of the elements of the quality control system at both the firm and engagement level.

7.3 Documentation of the Engagement

Firm policy provides established procedures for final assembly of the engagement file on a timely basis

(that is, ordinarily no more than 60 days after the date of the report). If there are two or more reports issued for the same subject matter information, it is suggested that firm policy indicate that the time limits for assembly of the engagement file be such that each report is treated as if it were a separate engagement.

Documentation must be retained for a sufficient period to allow those performing monitoring procedures to evaluate the extent of the firm's compliance with its internal control system, as well as the needs of the firm as required by professional standards, law, or regulations.

In considering engagement documentation, the firm should also look to focus on firm-wide policies which would require consistent file organization and indexing. This will permit a number of efficiencies including the easy identification of sections within the file, convenience of access by all levels of file reviewers, and consistency of approach to file completion by all members of the firm. From a quality control perspective it will also assist with the process of ensuring that the required sign-offs and cross-referencing have been included, and the location of any review notes.

File documentation should be organized into coherent divisions of work using an indexing system. As each piece of file documentation is produced it is provided with a unique reference that ties directly into the overall file index.

An example of a file index is provided in the exhibit 7.3.1 on page 63. This example groups the documents by the financial statement area such as cash, receivables, sales, and so forth.

Exhibit 7.3.1

Index — Year-end audit file
(Sample — using the CGA audit program designed for audits of periods ending on or after December 14, 2010)

Finalization of audit

1) Audit file closing
   Engagement completion memorandum
   Subsequent changes to the audit file
2) Financial statements / auditor's report
3) Final analytical review
4) Reviewer's checklist
   Quality control review (if EQCR applicable)
5) Financial statement presentation and disclosure review
6) Engagement partner / sole practitioner review
7) Adjusting and closing journal entries
8) Working trial balance
9) Correspondence, discussions, and notes —
   - Representation letter
   - Discussions with management and others
   - Management letter
   - Notes and queries

Audit acceptance

11) Audit engagement acceptance checklist —
    - New or continuing client

    Information from predecessor's files*
    Engagement letter*
12) Understanding the entity and its environment —
    - Client profile
    - Documents to request

Overall audit strategy

21) Establishing the overall audit strategy checklist
22) Determining materiality
    Evaluating misstatements
23) Identifying risks using analytical procedures
24) Conducting an audit team planning meeting
25) Assessing inherent risks
26) Determining whether the risks indicate the need for an EQCR
27) Audit budget — Time and fees
    Schedule of documents to be prepared by client
28) Overall audit strategy

Assessing risks of material misstatement

31) Assessing the risks of material misstatement checklist
32) Inquiries for management, for those responsible for governance for those responsible for internal audit, and for others in the entity
33) Evaluating the control environment
34) Evaluating management's use of estimates, including fair value
35) Information systems and internal control:
    - General IT system and IT controls
    - Revenue, receivables, and receipts
    - Purchases, payables, and payments
    - Payroll
    - Inventory, cost of sales, and production
    - Financing and equity

36) Testing controls**:
    - Revenue, receivables, and receipts
    - Purchases, payables, and payments
    - Payroll
    - Inventory, cost of sales, and production
    - Financing and equity

37) Review of minutes of all meetings
    Appointment of auditor (AGM resolution)
38) Review of client's annual report or other document that will include the audited financial statements
39) Risk assessment summary

Exhibit 7.3.1 Continued

Financial statement checklists, analytical procedures and tests of balances

Balance sheet / Statement of financial position

A)	Cash and cash equivalents	SS)	Journal entries
B)	Trade and other receivables	TT)	Responding to indications of fraud
C)	Inventories	UU)	Going concern
D)	Prepaid expenses	VV)	Foreign currency translation
E)	Investments	WW)	Accounting estimates
F)	Property, plant and equipment (BUS)		Changes in accounting policies and correction of prior period errors
G)	Capital assets (NPO)		
H)	Goodwill and intangible assets (BUS)	XX)	Related party transactions
AA)	Short-term and long-term debt		Significant transactions outside the normal course of business
BB)	Accounts payable and accrued liabilities		
EE)	Taxes payable	YY)	Contingencies and contractual obligations
HH)	Other liabilities		Subsequent events
NN)	Equity / Net assets	ZZ)	Economic dependence

Income statement / Statement of operations

100)	Revenue	300)	Expenses
200)	Cost of sales	400)	Other income and expenses

Substantive tests of transactions**

500)	Revenue, receivables, and receipts	Inventory, cost of sales, and production
	Purchases, payables, and payments	Financing and equity
	Payroll	

* May be in permanent file
** May be in interim file

HELPFUL HINTS

The firm should determine the engagement documentation requirements needed in order to demonstrate it has met its professional, regulatory, and legal requirements. It is suggested that consideration be given to:

- Engagement planning checklist or memorandum;
- Identified issues with respect to ethics requirements (including demonstration of compliance);
- Compliance with independence requirements and documentation of any discussions related to these issues;
- Conclusions reached with respect to acceptance and continuance of client relationship;
- Procedures performed to assess the risk of material misstatement due to fraud or error at the financial statement and assertion level;

- Nature, timing, and extent of procedures performed in response to assessed risk including results and conclusions;
- Nature, scope, and conclusions drawn from consultations;
- All communications issued and received;
- Results of the EQCR which has been completed on or before the date of the report;
- Confirmation that no unresolved matters exist that would cause the reviewer to believe that the significant judgments made and conclusions drawn were not appropriate;
- Conclusion that sufficient, appropriate audit evidence has been accumulated and evaluated, and supports the report to be issued; and
- File closing, including appropriate sign-off.

7.4 Documentation of the Engagement Quality Control Review

A completed, standardized EQCR checklist will provide documentation that the review was performed. This may include confirmation and supporting evidence or cross-references to it, affirming that:

- Appropriately qualified partners and staff have performed the procedures required for an EQCR (in the case of an audit engagement, ISA 220.25 (a));
- The review was completed on or before the date of the engagement report (in the case of an audit engagement, ISA 220.25 (b));
- No unresolved matters have come to the engagement quality control reviewer's attention that would cause him or her to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate (in the case of an audit engagement, ISA 220.25 (c)).

7.5 File Access and Retention

Policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the engagement documentation are required by both quality control standards and ordinarily by legal and professional regulations.

These policies should include consideration of various retention requirements under statutes and regulations to ensure that engagement documentation is retained for a period sufficient to meet the needs of the firm, and to comply with standards and the laws within local jurisdictions.

The policies should articulate that all working papers, reports, and other documents prepared by the firm, including client-prepared worksheets, are confidential and should be protected from unauthorized access. The policies and procedures should also include the protection and security of working paper files during field work. These should include direction to personnel concerning the appropriate handling of laptops, which are susceptible to damage, theft or loss, hard drive failure, or accident. Backup procedures should address these threats to minimize the partial or total loss of work effort, as well as protection of the client

information.

It is advised that the firm also require the engagement partner to approve all external requests to review working papers, and no documents be released until this approval is obtained.

Working papers should not be released to third parties unless:

- The client has authorized the disclosure in writing;
- There is a professional duty to disclose the information;
- Disclosure is required by a legal or judicial process; or
- Disclosure is required by law or regulation.

Unless prohibited by law (for example, according to the terms of certain antiterrorist or money laundering acts in various national jurisdictions), the firm should inform and obtain written authorization from the client before making working papers available for review. It is desirable that an authorization letter be obtained when there is a request to review files from a prospective purchaser, investor, or lender. Legal advice may be sought if the client does not authorize any necessary disclosure of information.

In the event of litigation or potential litigation, or regulatory or administrative proceedings, it is suggested that working papers not be provided without obtaining consent from the firm's legal counsel.

The minimum retention periods for current client working papers and files will be determined based upon local jurisdiction's taxation and legal requirements. Certain materials may need to be retained for longer periods, depending on client needs, risk, and legislative or legal considerations. The firm's policy should dictate the number of years (normally no less than five years) for which retention will apply for working papers and may also do so for each of the following types of files.

- Permanent files
- Tax files
- Financial statements and reports
- Correspondence

The policy should also articulate the minimum retention period for former client working papers and files, which would ordinarily not be shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.

For further guidance on file retention, consult the local tax, corporate, and other legislation.

It is suggested that an accessible, permanent record of all files stored off-site be maintained, and each storage container appropriately labeled for easy identification and retrieval. It is also suggested that the partner responsible for office administration approve any destruction of files and keep permanent records of all materials destroyed.

Appendix A

Partner and Staff Independence

[Firm's letterhead]

[Date]

[Addressed to the firm]

Acknowledgement of Independence

I confirm to the best of my knowledge and belief that I am in compliance with the firm's policies and procedures, which include Section 290 and Section 291 of the IESBA *Code of Ethics for Professional Accountants* on independence [except for matters listed in Schedule A].

If the reference to schedule A is deleted:

Initial here_____

Name: _____

Position:_____

Date:_____

Schedule A

Partner and Staff Independence

List and briefly explain the nature of all matters that to the best of your knowledge and belief might affect independence. Refer to Section 290 and Section 291 of the IESBA Code when completing the list.

Each item will be reviewed by the engagement partner. Further information may be necessary to determine what action, if any, is required.

All decisions and the course of action to be followed shall be fully documented.

Description	Detail how Independence Might be Affected	Appropriate Safeguard Applied (if applicable) to Eliminate or Reduce Threats to an Acceptable Level

Appendix B

[Sample] Declaration of Confidentiality

[Firm's letterhead]

(It is good practice to have a declaration of confidentiality signed at the beginning of a staff member's employment, and to have the document re-signed annually thereafter, to serve as a reminder of the requirement. Alternatively, such a clause may simply be incorporated within the terms and conditions of the staff member's employment contract)

[Date]

Dear [ ]:

To ensure continued compliance with Section 140 of the IESBA Code, pertaining to our professional responsibilities and the protection of our clients, it is essential that the affairs of our clients remain confidential. Confidential information refers to any information about our clients which comes to an individual's attention as a result of his or her association with the firm, unless such information is publicly available.

I have read, understood, and complied with the firm's statement of policy on confidentiality regarding the affairs of the firm's clients.

Name: _____

Signed:_____

Date:_____

Appendix C

Suggested matters to consider during the process of evaluating whether to accept an engagement for the first time from a new client. The results might be recorded in a checklist (such as the following), questionnaire format, or summarized in a memorandum.

Preliminary

Has a discussion taken place with the client prior to accepting the engagement to ascertain their history, and obtain documents (that is, organization chart, operating and financial performance results over the past two or three years, changes in management, structure of operations, and anything else likely to have an impact on the engagement)?

Client Acceptance	**Yes**	**No**	**N/A**	**Comments**
Prospective Client's Character and Integrity				
1. Do you, trusted clients, or colleagues know the client?				
2. Are you satisfied that there have been no events or circumstances that cast doubt on the integrity of the prospective client's owners, board members, or management? Specifically, are you reasonably satisfied that none of the following exist? (a) Convictions and regulatory sanctions, (b) Suspicion of illegal acts or fraud, (c) Ongoing investigations, (d) Management memberships in professional organizations that are not in good standing, (e) Negative publicity, and (f) Close association with people/companies with questionable ethics.				
Describe the methods used to obtain evidence of these risks, such as an Internet search. (Key words for an Internet search might include the client's business name, the names of key personnel, and the industry or products/services.)				
Document any evidence obtained that is relevant in assessing this risk.				
3. If other auditors/accountants have declined to serve the prospective client, or if opinion shopping or other similar motivations for change are suspected, have you documented the risks involved and carefully considered why you should accept the engagement?				

Client Acceptance	Yes	No	N/A	Comments
Predecessor Auditor/Accountant				
4. Have you contacted the predecessor auditor or accountant (if applicable in your jurisdiction) and enquired about: (a) Access to the prospective client's working papers; (b) Any outstanding fees; (c) Any difference of opinion or disagreements; (d) Integrity of management and board; (e) Reasons for the change; and (f) Any unreasonable demands or lack of co-operation?				
5. Have you obtained permission from the predecessor firm to review prior-year working papers (if permitted)? If so, have you reviewed prior-period planning documentation prepared by the previous firm, and determined whether the previous firm: (a) Confirmed independence from the client; (b) In the instance of an audit, whether it was performed in accordance with ISAs; (c) Had adequate resources and proficiency; and (d) Had an understanding of the entity and its environment?				
Previous Financial Statements				
6. Have you obtained and reviewed copies of: (a) Financial statements for at least the previous two years; (b) Tax returns and related assessments for the previous two years; and (c) Management letters for the previous two or three years?				
7. Assuming you can gain access, have you reviewed prior-period working papers prepared by the previous auditor or accountant to: (a) Assess the reasonableness of closing balances of prior periods, paying particular attention to significant accounts, to determine if any need to be restated; (b) Determine if the previous auditor/accountant identified any material misstatements;				

Client Acceptance	Yes	No	N/A	Comments
(c) Determine the effect on the current year of any immaterial misstatements not adjusted in the prior year; and (d) Assess the adequacy of management's accounting system by reviewing prior auditor/ accountant's adjusting journal entries and management letters?				
8. Have you determined the significant accounting policies and methods used in the prior year's financial statements, and considered whether they are appropriate and consistently applied? For example: (a) Significant valuations, such as allowance for doubtful accounts, inventory, and investments; (b) Amortization policies and rates; (c) Significant estimates; and (d) Other (please identify).				
9. In the instance of any audit, are any additional audit procedures required in relation to key prior-year transactions and/or balances to reduce the risk of misstatement of the opening account balances? If yes, add WP reference for those procedures.				
10. Have you determined whether a disclaimer of opinion will be necessary, due to an inability to obtain sufficient assurance regarding opening balances?				
Expertise				
11. Have you obtained an overall understanding of the client's business and operations? (Complete an understanding of client memorandum or use a standardized checklist to provide the information.)				
12. Do partners and staff have sufficient knowledge of the accounting practices of the prospective client's industry to perform the engagement? If not, can the required knowledge of the industry accounting practices be readily obtained? Identify the sources.				
13. Have any areas been identified that require specialized knowledge? If so, can the required knowledge be readily obtained? Identify the sources.				

Client Acceptance	Yes	No	N/A	Comments
Independence Assessment				
Additional prohibitions not addressed here apply to engagements of public interest entities. Section 290 and Section 291 of the IESBA Code should be referred to for all relevant requirements and guidance.				
14. Identify and document any existing prohibitions (those threats to independence for which there are no adequate safeguards, such as): (a) Acceptance of significant gifts or hospitality from the client; (b) Close business relationships with client; (c) Family and personal relationships with the client; (d) Fee quote considerably less than market price (unless the documentation will provide evidence that all applicable standards have been met); (e) Financial interests in the client; (f) Recent employment within the prescribed period (or anticipated future employment) with the client, serving as officer, director or employee with significant influence; (g) Loans and guarantees to/from the client; (h) Making journal entries or accounting classifications without first obtaining the approval of management; (i) Performance of management functions for the client; and (j) Provision of non-assurance services such as corporate finance, legal services that involve dispute resolution, or valuation services involving the valuation of matters material to the financial statements.				
Are you satisfied that there are no existing prohibitions that would preclude the firm or any staff member from performing the engagement?				

Client Acceptance	Yes	No	N/A	Comments
15. Refer to Part B of the IESBA Code for guidance in identifying threats and safeguards to independence. (a) Identify and document any threats to independence for which there may be safeguards. Address each of the following threats in relation to the firm and any member of the engagement team. • Self-interest threats, which may occur as a result of the financial or interests of a professional accountant or of an immediate or close family member (that is, where loss of client fees would be material), • Self-review threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment, • Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised (that is, acting as an advocate on behalf of the client in litigation or in share promotion), • Familiarity threat, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others, and • Intimidation threat, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived. (b) Evaluate and document whether these threats, considered individually and collectively, are clearly insignificant.				

Client Acceptance	Yes	No	N/A	Comments
(c) For each threat that is not clearly insignificant, document the safeguards that exist within the entity or at the firm and how they serve to reduce the threat to an acceptable level. Safeguards may include professional standards and monitoring, firm policies on continuing education, practice inspection, quality assurance, client approval of journal entries and classifications, and client safeguards such as a strong control environment and hiring of competent client personnel.				
(d) Are you satisfied that there are sufficient safeguards in place, and that threats to independence are eliminated or reduced to an acceptable level?				

Engagement Risk Assessment				
16. Have you determined that the risks associated with this industry and this prospective client are acceptable to the firm? Describe any known or suspected risks and their effect on the proposed engagement, including: (a) A domineering owner; (b) Breaches in industry laws/regulations that would result in material fines or penalties; (c) Financing or solvency problems; (d) High media interest in the entity or its management; (e) Industry trends and performance; (f) Overly conservative or optimistic management; (g) Participation in high-risk business ventures; (h) Particularly risky nature of business; (i) Poor accounting systems and records; (j) Significant number of unusual or related party transactions; (k) Unusual or complex corporate/operational structures; (l) Weak controls and management; (m) Lack of clear revenue recognition policies; (n) Significant impact on the industry or business from changes in technology;				

Client Acceptance	Yes	No	N/A	Comments
(o) Significant potential benefits to management that depend on favorable financial or performance results; (p) Competence or credibility issues with management; (q) Recent changes in management, key personnel, accountants or lawyers; and (r) Public entity reporting requirements.				
17. Who are the likely users of the financial statements? • Banks • Government taxation agencies • Regulatory bodies • Management • Creditors • Potential investors/purchasers • Shareholders/members • Others				
Are there any shareholder disputes or other disputes that will be affected by the results of the engagement?				
Does the anticipated reliance of these users on the report issued represent a reasonable risk?				
18. Are there specific areas of the financial statements or specific accounts that deserve extra attention? If so, document the details.				
19. Did the previous auditor/accountant propose many adjustments and/or identify many unadjusted immaterial corrections? If so, document the likely reason and its effect on the engagement risk.				
20. Are you satisfied that there is no significant reason to doubt the prospective client's ability to continue in existence for the foreseeable future (at least one year)?				
21. Are you satisfied that the prospective client is both willing and able to pay an acceptable fee?				
Limitations to Scope				
22. Are you satisfied that there will be no scope limitations imposed on your work by client management?				

Client Acceptance	**Yes**	**No**	**N/A**	**Comments**
23. Are there appropriate criteria (for example, IFRSs) against which the subject matter of the engagement can be evaluated?				
24. Are the time frames for completion of the work reasonable?				

Other

25. Are there any additional client acceptance issues to consider, such as a more detailed assessment of independence and risk factors? If so, document the issues and your handling of these issues.				
26. Other comments.				

Partner conclusion

Partner comments
Based on my preliminary knowledge of the prospective client and any factors outlined above, this prospective client should be rated as: ❒ High risk ❒ Moderate risk ❒ Low risk

1. I am satisfied that there are no prohibitions that would prevent the firm or any member of the engagement team from performing this assignment.
2. Where significant threats to our independence have been identified, existing safeguards are in place to eliminate or reduce such threats to an acceptable level.
3. I am not aware of any factors that would impair our independence or appearance of independence.
4. I am satisfied that we have obtained sufficient information to assess whether or not to accept this engagement.

In my opinion, we should **accept** ❒ or **decline** ❒ this engagement.

Second partner approval (if applicable)

Signature:_____ Signature:_____

Date: _____ Date: _____

Appendix D

Assignment of Personnel to Engagements	Yes	No	N/A	Document which contains the policy and procedure
Suggested Planning Steps				
In smaller firms, time availability, occurrence of many year ends together at certain times of the year, and lack of necessary skill sets are common problems. When considering assignment of personnel to engagements, it is useful at the same time to consider the need for outside experts and make such arrangements on a timely basis.				
1. Define the firm's approach to assigning partners and staff to engagements, taking into consideration overall firm and office needs and the measures employed to achieve a balance of personnel requirements, personnel skills, and individual development and utilization. (a) Plan the firm's personnel needs on an overall basis. (b) Identify the firm's requirements for specific engagements, at the earliest possible date. (c) Prepare time budgets for engagements to determine the personnel requirements, and schedule work. (d) When determining personnel requirements and use of partners and staff, consider the engagement's size and complexity, personnel availability, special expertise required, timing of the work to be performed, continuity and periodic rotation of personnel, and on-the-job training opportunities.				
2. Appoint an appropriate partner or senior experienced staff to be responsible for assigning personnel to engagements. When deciding on individual assignments, consider: (a) Staffing and time requirements of a specific engagement; (b) Evaluations of individual qualifications regarding experience, position, background, and special expertise;				

Assignment of Personnel to Engagements	Yes	No	N/A	Document which contains the policy and procedure
(c) The extent of supervisory personnel's planned supervision and involvement; (d) Projected time availability of individuals assigned; (e) Situations where possible independence problems and conflicts of interest may exist, such as assigning personnel to engagements for clients that are former employers or employers of family members; and (f) When assigning personnel, give appropriate consideration to both continuity and rotation to provide for efficient conduct of the engagement and the perspective of other personnel with different experience and backgrounds.				
3. Provide for the engagement partner's approval of the engagement's scheduling and staffing. (a) Submit for review and approval the names and qualifications of personnel to be assigned to an engagement. (b) Consider the experience and training of the engagement team in relation to the engagement's complexity or other requirements and the extent of supervision to be provided.				

Appendix E

Consultation

Small firms may find a greater need to seek outside consultation regarding complex transactions, specialized accounting matters, significant independence or other ethical issues. This list may be modified for a firm's own use as a guide to performing and documenting such consultation.

	Yes	No	N/A	Document which contains the policy and procedure
1. Inform personnel of the firm's consultation policies and procedures.				
2. Specify areas or specialized situations requiring consultation because of the nature or complexity of the subject matter, including: (a) Newly issued technical pronouncements; (b) Special accounting, auditing, or reporting requirements of specific industries; (c) Emerging practice problems; and/or (d) (Filing requirements of legislative and regulatory bodies, particularly those of a foreign jurisdiction.				
3. Maintain or provide access to adequate reference libraries and other authoritative sources. (a) Establish responsibility for maintaining a reference library. (b) Maintain technical manuals and circulate technical pronouncements. (c) Maintain consultation arrangements with other firms and professionals to supplement the firm's resources.				
4. Designate individuals as specialists to serve as authoritative sources and define their authority in consultative situations.				
5. Specify the extent of documentation to be provided following consultation in areas and specialized situations that require consultation. (a) Advise firm members on the extent of documentation to be prepared and the responsibility for its preparation. (b) Indicate where to maintain consultation documentation. (c) Maintain subject files containing the results of consultations for reference and research purposes.				

Appendix F

Engagement Quality Control Review (EQCR)
(Suggested Procedures)

	Yes	No	N/A	Comments
1. Review the financial statements or other subject matter.				
2. Review the proposed report and indicate whether it is appropriate in the circumstances.				
3. In the case of an audit engagement, review the working papers documenting significant audit risks and the firm's response to such risks.				
4. Determine whether working papers selected for review reflect the work performed in relation to the significant judgments and conclusions reached.				
5. Review documentation for evidence that engagement acceptance (or continuance, if applicable) procedures were performed.				
6. Review the assessment procedures when reliance is placed on the work of other auditors or accountants.				
7. Review the procedures relating to compliance with relevant legislation, listing requirements where relevant, and criteria (for example, IFRSs).				
8. Review the appropriateness of engagement team selection.				
9. Review the engagement letter.				
10. Review the representation letter signed by management or those charged with governance.				
11. Review conclusions regarding going concern considerations.				
12. Review evidence of appropriate review of working papers performed by assurance engagement management.				
13. Review other reports issued in relation to the engagement such as regulatory returns in respect of financial institutions.				
14. Review the level of non-assurance services provided to the client.				
15. Review the significance and disposition of corrected and uncorrected misstatements identified during the engagement.				

Engagement Quality Control Review (EQCR)
(Suggested Procedures)

	Yes	No	N/A	Comments
16. Review the engagement team's evaluation of the independence of the firm and personnel, including network firm personnel and experts.				
17. Review evidence that consultation with other partners has taken place with regard to difficult or contentious matters and differences of opinion and that the conclusions are appropriate and have been implemented.				
18. Review advice from specialists consulted.				
19. Review matters to be communicated to management and those charged with governance, and where applicable, regulatory bodies.				
20. Hold a discussion with the engagement partner during the engagement quality control review to review decisions on contentious, difficult or complex aspects of the engagement affecting financial statement disclosures.				
21. Where the recommendations of the quality control reviewer are not accepted by the engagement partner and the matter is not resolved to the reviewer's satisfaction, the report may not be dated until the matter is resolved by following the firm's procedures for dealing with differences of opinion. Provide details, if applicable.				

Appendix G

Quality Control System Monitoring Process
(Suggested Considerations)

1. The quality control system assessment has been scheduled at the appropriate time (that is, slower periods for the firm).
2. The firm's current quality control manual has been reviewed to ensure that knowledge of the system is complete.
3. Changes in the profession and in authoritative professional guidance have been considered that may indicate a need to revise or update the quality control system or the related guidance.
4. Information has been obtained about, and assessment made, of the firm's policies, requirements, and practices relating to continuing professional development.
5. Compliance by partners and staff with respect to mandated continuing professional development and related reporting has been reviewed.
6. The management of, and responsibility for obtaining, learning, and communicating relevant professional practice developments in the areas the firm offers services has been reviewed.
7. Internal and external training programs completed by partners and staff during the past year have been reviewed.
8. Interviews with the proprietor or partners responsible for various aspects of the system of quality control have been conducted.
   During each interview, the following were queried:
   (a) Were there any changes to their area that will necessitate a change to the system of quality control or related documentation?
   (b) Are there any changes that will occur within the next year that should be addressed immediately?
   (c) Were there any significant violations or other events occurring in their area that indicate a deficiency in the system of quality control?
   (d) Has any partner or staff displayed a reluctance to comply with firm policy?

Yes	No	N/A	Comments

Quality Control System Monitoring Process (Suggested Considerations)

Yes	No	N/A	Comments

(e) Were there any complaints regarding non-compliance from either inside or outside the firm?

(f) Are there any other matters to be considered which may be significant to the quality control system review?

9. Were there any other regulatory or professional practice reviews during the period? (If so, obtain copies and consider the findings.)

10. Has the adequacy of the firm's dispute/ disagreement resolution process and disciplinary procedures been considered? Specifically, enquiries should be made as to how any disciplinary matters were addressed, and the disposition of any matters reported under the firm's whistleblower protection policies.

11. Has a sample been selected from the firm's records of declarations concerning matters of independence, confidentiality, compliance with firm policies, and quality control standards, and for acknowledgement of compliance (if applicable)?

12. Did the files reviewed contain documentation to consider and report on the adequacy and appropriateness of decisions made and actions taken on matters concerning:
    (a) Internal and external complaints;
    (b) Disputes on professional matters; and
    (c) Noted violations (by partners or staff) of procedures and policies.

13. There were _____ (number) file inspections completed, using a file inspection checklist, in order to determine if the firm's quality control policies are being complied with. Files were selected such that, over a three-year monitoring inspection cycle, the following criteria will be met:

    The following files will have been inspected [revise (a) and (b) in accordance with the firm policy adopted. For example, both quantitative (number) and qualitative (risk) factors may be considered]:

Quality Control System Monitoring Process (Suggested Considerations)	Yes	No	N/A	Comments
(a) At least one review and one audit engagement from each partner (b) At least one assurance engagement other than an audit or review of financial information				
14. Note any significant deficiencies found during the file inspection. If there were significant deficiencies, do they represent a deficiency in the system that must be corrected, or is there a failure to comply with firm policy?				
15. The files inspected should not include any which the monitor has had involvement with as engagement partner or reviewer. In those instances an alternate individual should be assigned. (Response is required in the right-hand column.)				
16. After performing the above procedures, the monitor has determined that there are no significant changes needed to the system of quality control or the related documentation. If there are changes required to the system of quality control, a report has been prepared including recommended or required changes for presentation to the partners. Proposed changes have been supported by evidence for the recommendations.				
17. Consider and respond to the circumstance which applies: (a) Evidence of opposition or failure to adopt proposed changes or accept constructive comments has been considered; (b) There appears to be no such opposition or failure; or (c) Consultation with the proprietor or partner or an external expert to review the proposal for advice regarding whether he or she believes the changes or comments are appropriate.				
18. The implications of any errors, omissions, disputes or non-compliance observed in the context of the firm's legal, contractual, and professional obligations have been considered and reported to the partners accordingly.				

Quality Control System Monitoring Process (Suggested Considerations)

19. A report has been prepared and delivered to the appropriate partner(s) in the firm, which includes the procedures performed, the findings resulting from these procedures, and resulting recommendations. The report has been discussed with the partner(s) and they have agreed to implement the recommendations and inform appropriate partners and other staff of the findings and recommendations, or if they have not agreed, they have agreed to utilize the firm's processes for resolving differences of opinion and to document the results.

Yes	No	N/A	Comments

Appendix H

[FIRM NAME]

MONITOR'S REPORT

[MONITOR'S NAME]

[Date of Issue]

[FIRM NAME]

Introduction

Overview

ISQC 1.48 states:

48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. This process shall:
    (a) Include an ongoing consideration and evaluation of the firm's system of quality control, including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
    (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. A64-A68)

[FIRM NAME]

Monitor's Questionnaire

The Monitor's Report will consist primarily of answers to the following questions. For each of the questions with a "No" answer, please include your observations, conclusions, and recommendations (if appropriate) in your report to the partner(s) responsible for quality control.

	Yes	No	N/A	Comments
1. Is the management of the system of quality control in the firm assigned to a partner or other person with sufficient and appropriate experience and authority?				
2. Does the firm have a written quality control manual (QCM) or policies?				
3. Does the content of the written QCM conform in all relevant respects with the requirements of ISQC 1, or other appropriate jurisdiction requirements?				
4. Have the results of the comparison of firm QCM with ISQC 1 requirements (or requirements of other appropriate jurisdiction) been communicated to the person(s) responsible for the system of quality control in the firm (including details of missing or inappropriate, policies, procedures, and documentation)?				
5. Has at least one engagement been examined for each partner?				
6. For engagements reviewed, did you (as monitor) ensure that you were neither a member of the engagement team, nor a Quality Control Reviewer (QCR) on the engagement?				
7. Were any deficiencies found that appeared to be systematic, repetitive or otherwise significant and requiring prompt corrective action?				
8. Is there evidence that a report issued by the firm may have been inappropriate?				
9. Was there evidence of required engagement procedures not performed?				
10. Have all deficiencies been reported in writing to the partner(s) responsible for the system of quality control within the firm?				

	Yes	No	N/A	Comments
11. Have the underlying reasons for all significant deficiencies been established?				
12. For files reviewed, have appropriate file inspection checklists been completed and retained in the documentation?				
13. Is there evidence that the partner(s) responsible for the system of quality control in the firm have communicated at least annually to appropriate partners and others regarding the monitoring procedures performed over the past year, conclusions drawn from such procedures, and a description of any systemic, repetitive or other significant deficiencies found and action taken to resolve such deficiencies?				

Monitor's Report

To: (Partner(s) responsible for the system of quality control in the firm)

Review conducted between (beginning date) and (ending date)

Period Covered: From (beginning date) to (ending date)

Name of Sole Proprietor/Partner(s) for whom files were reviewed:

_____
_____
_____
_____

I have been assigned/engaged to perform a monitoring inspection for the firm, including a review of the quality control policies and a review of engagements representing at least one per partner.

The management of the system of quality control in the firm appears to *[be/not to be]* assigned to a partner or other person with sufficient and appropriate experience and authority.
(Insert explanation if the conclusion is negative.)

_____
_____
_____

1. The firm *[does/does not]* have a written quality control manual (QCM) and/or quality control policies and procedures.
   (Insert explanation offered by partner(s) responsible for the system of quality control, if a written QCM is incomplete.)

   _____
   _____
   _____

2. In my opinion, the content of the written quality control manual (QCM) *[does/does not]* conform in all relevant respects with the requirements of ISQC 1 *[or other appropriate jurisdiction requirement]*.

   _____
   _____
   _____

3. I *[found/did not find]* the following missing or inappropriate policies, procedures, and/or documentation in your QCM.

4. I *[found/did not find]* evidence that the partner(s) responsible for the system of quality control in the firm have communicated at least annually to appropriate partners and others regarding the monitoring procedures performed over the past year, conclusions drawn from such procedures, and a description of any systemic, repetitive or other significant deficiencies found and action taken to resolve such deficiencies.

5. I have reviewed at least one engagement for each partner.

   For engagements reviewed, I verified that I was neither a member of the engagement team, nor a quality reviewer on the engagement.

   Insert details of each engagement selected (including partner name, engagement type, client name, and year-end date)

6. I *[found/did not find]* deficiencies within the file engagements that appeared to be systematic, repetitive or otherwise significant and requiring prompt corrective action.

   Insert details of each such deficiency found.

7. I *[found/did not find]* evidence indicating that a report issued by the firm may have been inappropriate.

   Insert details of evidence indicating the possibility that an issued report may not have been appropriate.

8. I *[found/did not find]* evidence that engagement procedures required either by ISA or the firm were not performed.

   Insert details of evidence indicating that required procedures were not performed including a reference to the requirement.

   _____
   _____
   _____

9. I have reported all deficiencies found, together with the underlying reasons why they occurred, in the course of my review to the partner(s) responsible for the system of quality control in the firm.

   _____
   _____
   _____

10. For files reviewed, I have completed the appropriate file inspection checklists and these are attached to this report as appendices.

    _____
    _____
    _____

SAMPLE

QUALITY CONTROL MANUAL

SOLE PRACTITIONER WITH NON-PROFESSIONAL STAFF

Sample Manual — Who is it for? How do you use it?

The policies and procedures suggested in this sample manual are for those firms led by a sole practitioner (SP) and are designed to assist SPs establish and implement a system of quality control in compliance with ISQC 1. The content of this manual should be reviewed and amended to fit the circumstances of each SP. The acronyms used to designate leadership positions should be changed to reflect the titles used within the SP. Words and phrases defined in ISQC 1 and the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* have the same meaning in this manual.

For the purposes of this manual, the term "staff" is taken to mean staff who perform technical tasks relating to engagements in support of the SP but excludes staff who only perform non-technical, administrative tasks.

Table of Contents

General Policy Statement

It is the sole practitioner's (SP) objective to establish, implement, maintain, monitor, and enforce a quality control system that meets, as a minimum, the requirements of the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* ***[or equivalent professional standards and applicable regulatory and legal requirements in the SP's jurisdiction]***. The quality control system is intended to provide the SP with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements and that engagement reports issued by the firm or SP are appropriate in the circumstances.

> Insert SP documents which provide details of the mission statement and/or SP goals. For guidance on materials which might be included, please refer to the General Policy Statement section of the Guide.

General Roles and Responsibilities of the SP and Staff

The SP exercises ultimate authority and bears responsibility for the system of quality control.

The overriding message of the SP is a commitment to quality, and to encourage and promote staff who are equally committed to this agenda.

The SP and each staff member are, to varying degrees, responsible for implementing the SP's quality control policies.

The SP's values include ***[identify other common values as reflected by the SP's culture]***.

The SP and staff are required to conform to the following guidelines:

- Treating ethical behavior and quality of service as the first priority; commercial considerations may not override the quality of the work performed;
- Reading, understanding, and following the IESBA Code;[1]
- Understanding the SP's and staff responsibilities to identify, disclose, and document threats to independence and the process to be followed to address and manage identified threats;
- Avoiding circumstances where independence may be (or appear to be) impaired;
- Complying with continuing professional development requirements including maintenance of records as evidence thereof;
- Remaining abreast of current developments in the profession, applicable financial reporting framework and assurance standards (for example, IFRSs, ISAs), disclosure and accounting practices, quality control, firm standards, and relevant industry and client-specific developments;
- Providing the SP and staff with courteous assistance, when needed and requested, to help them learn through shared knowledge and experience and improve the quality of client service;

1 Or member body code of ethics

- Keeping time records (regularly entered into the SP's time and billing systems) to track and identify time spent on engagement and office activities (both chargeable and non-chargeable);
- Safeguarding and properly using and maintaining office and computer equipment (including network and communication resources) and other shared assets. This includes using the SP's technological resources only for appropriate business purposes, taking into consideration ethics, client confidentiality, and privacy;
- Keeping SP and client data, business and client information, and personal information secure and confidential;

> Insert sample of firm's Declaration of Confidentiality

- Ensuring that firm-generated electronic-based information on the client or firm is stored on the SP network according to appropriate information storage procedures;
- Informing the SP of any observations of significant breaches in SP's quality control, ethics including independence, confidentiality, or inappropriate use of SP resources (including Web and e-mail systems);
- Documenting and maintaining appropriate records of all significant client contacts when professional advice is given or requested;
- Documenting and maintaining appropriate records of all significant consultations, discussions, analyses, resolutions, and conclusions on independence threat management, difficult or contentious issues, differences of opinion, and conflicts of interest; and
- Following the SP's standard practices for work hours, attendance, administration, meeting deadlines, and quality control.

> Insert additional guidelines as desired. For guidance on materials which might be included, please refer to the General Policy Statement section of the Guide.

1. Leadership Responsibilities for Quality Within the SP

1.1 Tone at the Top

The SP decides on all key matters regarding the professional practice.

The SP accepts responsibility for leading and promoting a culture of quality within the firm and for providing and maintaining this manual and all other necessary practical aids and guidance to support engagement quality.

The SP determines the operating and reporting structure. In addition, the SP may designate qualified staff, on an annual or other periodic basis, the person(s) responsible for recordkeeping or other administrative elements of the quality control system; however, ultimate responsibility for these functions will rest with the SP.

Any individuals who take on specific responsibilities and duties for the quality control system shall have sufficient and appropriate experience and ability, and the necessary authority, to carry out their responsibilities.

1.2 Leadership Positions

Throughout this quality control manual, reference is made to various leadership functions within the firm. The SP will serve several roles. However, the role of HR may be served by appropriately qualified staff and the QCR will be a suitably qualified external person. These roles are defined as follows:

SP (Sole Practitioner). Owner and manager of the firm

QCR (Quality Control Reviewer). Any professional performing the function of engagement quality control review

HR[2] (Human Resources). Personnel responsible for all human resource functions including recordkeeping with respect to professional duties such as membership fees and continuing professional development

2 The SP may also assume some or all of the HR functions.

2. Relevant Ethical Requirements

The SP and their personnel shall comply with relevant ethical requirements including, as a minimum, those set out in the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and any additional local regulatory requirements.

The SP recognizes the value of ethical leadership and accepts responsibility to provide it.

The SP has an expectation that all staff maintain current knowledge of the provisions contained within the IESBA Code. This will require all staff to assume personal responsibility for the periodic review of the contents of the IESBA Code.

2.1 Independence

The SP and all staff must be independent both of mind and in appearance of their assurance clients and engagements.

Independence shall be maintained throughout the engagement period for all assurance engagements, as set forth in and by:

- The IESBA Code, specifically Section 290 and Section 291;
- ISQC 1; and
- Any additional local requirements.

If threats to independence cannot be eliminated or reduced to an acceptable level by applying appropriate safeguards, the SP shall eliminate the activity, interest, or relationship that is creating the threat, or refuse to accept or continue the engagement.

The SP is responsible for, and must ensure, an appropriate resolution to independence threats.

The SP and staff are required to review their specific circumstances for any independence threats. The SP is to be informed if such threats are identified by staff.

The SP must document the details of identified threats, including relationships or circumstances involving a client, and the safeguards that were applied.

All staff are required to provide the SP annually with written confirmation that they understand and have complied with Section 290 and Section 291 of the IESBA Code and the SP's independence policies.

Staff assigned to an assurance engagement shall confirm to the SP that they are independent of the client and engagement, or notify the SP of any threats to independence so that appropriate safeguards can be applied.

Staff must notify the SP if, to their knowledge, they or any other staff member have, during the disclosure period, provided any service that would be prohibited under Section 290 and Section 291 of the IESBA Code or other local requirement, which could result in the SP being unable to complete an assurance engagement.

The SP shall take whatever reasonable actions are necessary and possible to eliminate or reduce any independence threat to an acceptable level. These actions may include:

- Replacing a member of the engagement team;
- Ceasing or altering specific types of work or services performed in an engagement;
- Divesting of a financial or ownership interest;
- Ceasing or changing the nature of personal or business relationships with clients;
- Submitting work for additional review to an external professional accountant or other staff member; and
- Taking any other reasonable actions that are appropriate in the circumstances.

2.1.1 Long Association on Audit Engagements for Public Interest Entities

The SP and staff must follow Section 290 of the IESBA Code, and any additional local requirements, regarding mandatory rotation on all audit engagements for public interest entities.

In accordance with the IESBA Code (paragraph 290.151), when the audit client is a public interest entity, and the SP or QCR has been involved with the client for a period of ***[state number of years in accordance with the SP's policy, no more than seven years]***, they shall not participate in the engagement until ***[a further period of time, not less than two years]***, has elapsed.

Some degree of flexibility may be permitted in rare cases due to unforeseen circumstances outside of the firm's control and where the individual's continuity on the audit engagement is especially important to audit quality. In these cases, equivalent safeguards will be applied to reduce any threats to an acceptable level. Such safeguards, at a minimum, will include an additional review of the work performed by a professional who has not been associated with the audit team, most likely a suitably qualified external person. The circumstances under which rotation would not be recommended or required should be compelling.

Otherwise, for a SP, rotation may not be an available safeguard. In accordance with the IESBA Code (paragraph 290.155), if an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

2.1.2 Rotation of Personnel on Audit Engagements for Non-listed Entities

For non-listed entities, if rotation is deemed necessary, the SP will identify the replacement and specify the period for which the individual shall not participate in the audit of the entity and other safeguards necessary to comply with any other relevant requirements.

3. Acceptance and Continuance of Client Relationships and Specific Engagements

3.1 Acceptance and Continuance

The SP shall only accept new engagements or continue existing engagements and client relationships where it has the capabilities, including time and resources, to do so, and can comply with ethical requirements and has considered the integrity of the (prospective) client and has no information to conclude that the (prospective) client lacks integrity.

The SP must approve and sign off on the decision to accept or continue an engagement in accordance with the SP policies and procedures.

3.1.1 Prospective New Clients

An evaluation of a prospective client and authorized approval shall be undertaken, and documented, before issuance of any client proposal. The evaluation process will include:

- an assessment of the risks associated with the client; and
- inquiry of appropriate personnel and third parties (including the predecessor firm).

The SP may also engage in background searches, such as making use of any online information that may be readily available.

Once a determination has been made to accept a new client, the SP shall comply with the relevant ethical requirements (such as communicating with the former firm if required by the member body code of ethics) and will prepare an engagement letter for signature by the new client.

3.1.2 Existing Clients

For each ongoing engagement, a documented client continuance review is required to determine whether it is appropriate to continue providing the client with services, based on the prior engagement and planning for the continuing engagement. This review will also include consideration of any rotation requirements.

3.1.3 Prospective New Clients and Existing Clients

When considering whether or not to accept or continue a particular engagement the SP shall consider:

- Whether the SP and staff are, or can reasonably become, sufficiently competent to undertake the engagement (this would include knowledge of the industry and subject matters and experience with the regulatory or reporting requirements);
- Access to any experts that may be required;
- Identification and availability of the individual assigned to perform the engagement quality control review (if required);
- Any proposed use of another auditor's or accountant's work (including any collaboration which may be necessary with other offices of the firm or network firms);
- The ability to meet the engagement's reporting deadline;

- Whether there are any actual or potential conflicts of interest;
- Whether any identified independence threats have or can have safeguards applied and maintained to reduce them to an acceptable level;
- The quality of the (potential) client's management, as well as those charged with governance and those who control or exert significant influence over the entity, including their integrity, competence, and business reputation (including consideration of any lawsuits or negative publicity surrounding the organization), together with present and past firm experience;
- The attitude of these individuals and groups towards the internal control environment and their views on aggressive or inappropriate interpretations of accounting standards (including consideration of any modified reports that have previously been issued and the nature of the qualifications);
- The nature of the entity's operations, including its business practices and the fiscal health of the organization;
- Whether the SP is under pressure from the client to keep the billable hours (fees charged) at an unreasonably low level;
- Whether the SP expects any scope limitations;
- Whether there are any signs of criminal involvement; and
- The reliability of the work done by the preceding firm and how this predecessor has responded to communications (this would include knowledge of the reasons the client left the previous firm).

> Insert additional SP policy or acceptance criteria as desired. For guidance, refer to Section 3.2 of the Guide.

If, after accepting or continuing an engagement, the SP receives information, which, if known earlier, would have resulted in a refusal of the engagement, the SP must consider whether to continue the engagement and will normally seek legal advice regarding its position and options to ensure that it meets all relevant professional, regulatory, and legal requirements.

3.2 Withdrawal from an Engagement or Client Relationship

The following process shall be followed when considering withdrawal from an engagement or client relationship:

(i) The SP will undertake to meet with the client's management and those charged with governance to discuss the actions that may be taken, given the relevant facts and circumstances.

(ii) If withdrawal is consequently considered appropriate, the SP will document the significant matters which led to the withdrawal, including the results of any consultation, the conclusions reached, and the basis for these conclusions. The SP will also consider whether they have a professional, regulatory or legal obligation to report the withdrawal of the engagement to any relevant authorities.

(iii) If there is a professional, regulatory or legal requirement which compels the SP to continue the engagement, the reasons for continuance should be documented, including consideration of consultation with the legal counsel.

4. Human Resources

The SP recognizes the value and authority of the HR in all human resource matters. The HR has responsibility for:

- Maintenance and implementation of human resource policies designed to provide reasonable assurance that the SP has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:
  - Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
  - Enable the firm or SP to issue reports that are appropriate in the circumstances;
- Identifying required policy changes resulting from labor laws and regulations and to remain competitive in the marketplace;
- Providing guidance and consultation on human resource related matters;
- Maintenance of performance evaluation appraisal systems;
- As requested, recommending specific actions or procedures appropriate to the circumstance (for example discipline, recruitment);
- Developing, and periodically monitoring, an annual training and professional development plan for all personnel;
- Development and delivery of orientation training; and
- Maintenance of personnel files (including annual declarations of independence, acknowledgement of confidentiality, and training and continuing professional development reports)

4.1 Recruitment and Retention

The SP and HR must assess professional service requirements in order to ensure they have the capacity and competence necessary to meet clients' needs. This will ordinarily include developing a detailed expectation of engagement requirements over the course of each calendar period in order to identify peak periods and potential resource shortages.

The HR uses current application, interviewing, and documentation processes with respect to hiring.

The HR will consider the following items when the SP is seeking candidates for employment:

- Verifying academic and professional credentials and checking references;
- Clarifying gaps in time on candidates' resumes;
- Considering credit and criminal-record checks;
- Clarifying with candidates the firm's requirement to state in writing, annually and for each assurance engagement, whether they are independent and free of conflict of interest; and
- Informing candidates of the requirement to sign a declaration regarding understanding of and compliance with the firm's confidentiality policy.

> Insert additional SP policy or procedures for recruitment as desired here. For guidance, refer to Section 4.2 of the Guide.

The HR provides all new personnel orientation information as soon as is practical after commencing employment with the SP. The orientation materials include a complete copy of the SP's policies and procedures. A probationary period of ***[specify length of period]*** applies to all new personnel.

The SP endeavors to identify opportunities for the personnel's career development in order to retain competent staff and to provide for the SP's sustainability and continued growth.

The SP periodically reviews the effectiveness of the recruitment program together with an assessment of the SP's current resource needs to identify whether revisions to the program are required.

4.2 Training and Continuing Professional Development (CPD)

The SP and staff must meet the minimum continuing professional development requirements as defined in ***[state local jurisdiction or member body requirements]*** and any additional identified training needs which are appropriate for their level and responsibilities.

Attendance at external professional development courses must be approved by HR.

The SP and staff are responsible for maintaining their own professional development records (and, where applicable, adhering to the firm's guidelines). The SP or HR collects and reviews these records annually in order to ensure the required training and CPD has been undertaken and, if relevant, to determine appropriate actions to address any shortfalls.

4.3 Assignment of Engagement Teams

Through its policies and procedures, the SP ensures the assignment of appropriate staff (individually and collectively) to each engagement. The responsibilities of the SP are clearly defined in section 5.1 of this manual and in the engagement templates provided by the SP. The SP is also responsible for ensuring that the individuals assigned, and the engagement team as a whole, have the necessary competencies to complete the engagement according to professional standards and the firm's quality control system.

When determining the appropriate personnel to assign to an engagement, particular attention will be given to their technical knowledge, qualifications and experience. Continuity with the client, balanced with rotation requirements, will also be considered.

The SP will also plan for coaching opportunities between junior and senior personnel to guide the development of less experienced staff.

4.4 Enforcement of Quality Control Policies (Discipline)

The SP's quality control system requires more than just effective monitoring. An enforcement process is essential, and includes consequences and corrective procedures for non-compliance, disregard, lack of due care and attention, abuse, and circumvention.

The SP has overall responsibility for the disciplinary process. Corrective action is determined and

administered through a consultative process, not in an autocratic fashion. The corrective action taken will depend on the circumstances.

Serious, willful, and repeated infractions or disregard for SP policies and professional rules cannot be tolerated. Appropriate steps must be taken to correct the staff member's behavior or terminate the person's relationship with the SP.

Corrective action taken by the SP will depend on the circumstances. Such actions might include, but are not limited to:

- Interviewing the person(s) involved to establish the facts and discuss causes and solutions;
- Counselling and/or mentoring; and
- Conducting follow-up interviews to ensure compliance has improved or to caution the staff involved that stronger corrective action will otherwise be required to protect the interest of clients and the firm, such as:
  - Reprimand (either oral or written);
  - Mandatory requirement to complete defined continuing professional development;
  - Written record filed in the personnel file;
  - Employment suspension;
  - Termination of employment; or
  - Formal notification filed with the professional association's discipline committee.

Insert additional SP policy or procedures that will be a consequence of discipline as desired. For guidance, refer to Section 4.5 of the Guide.

4.5 Rewarding Compliance

Compliance with the SP's policies will feature prominently in the evaluation of individual staff members, both on an ongoing basis and in the regularly scheduled personnel review process.

Appropriate weighting will be assigned to the traits identified in the assessment of job performance and in determining remuneration levels, bonuses, advancement, career development, and authority within the firm. Quality shall feature prominently in such weighting.

Performance appraisals, conducted on a periodic basis, will include the form and content as defined by the SP's policy.

Insert sample of SP's performance appraisal.

5. Engagement Performance

Through established policies and procedures and its quality control system, the SP requires that engagements be performed according to professional standards and applicable regulatory and legal requirements.

The SP's overall systems are designed to provide reasonable assurance that the staff are adequately and properly planned, supervised, and reviewed and that the engagement reports are appropriate in the circumstances.

To facilitate staff performance on engagements consistently and according to professional standards and regulatory and legal requirements, the SP provides sample working paper templates for documenting the engagement process for clients. These templates are updated as required to reflect any changes in professional standards. Staff use these templates to document key facts, risks, and assessments related to acceptance or continuation of each engagement. Staff are encouraged to exercise professional judgment when modifying such templates to ensure that such matters are appropriately documented and assessed for each engagement in accordance with professional standards and firm policies.

Also available are research tools and reference materials; a quality control system, as set out in this manual; appropriate industry-standard software and hardware tools, including data and system access security and guidance; training, and education policies and programs, including support for compliance with ***[state applicable jurisdiction]*** professional development requirements.

Supervision and review responsibilities shall be determined by the SP and may vary between engagements. Review responsibilities shall be determined on the basis that the work of less experienced team members is reviewed by more experienced engagement team members. Reviewers shall consider whether engagement teams have:

- Used (modifying as appropriate) the SP's templates for file preparation, documentation, and correspondence, as well as its software, research tools, and the signing and release procedures appropriate for the engagement;
- Followed and adhered to the ethical policies of the firm;
- Performed their work to professional and the SP's standards with due care and attention;
- Documented their work, analysis, consultations, and conclusions sufficiently and appropriately;
- Completed their work with objectivity and appropriate independence, on a timely and efficient basis, and documented the work in an organized, systematic, complete, and legible manner;
- Ensured that all working papers, file documents, and memoranda are initialled, properly cross-referenced, and dated, with appropriate consultation on difficult or contentious matters;
- Ensured that appropriate client communications, representations, reviews, and responsibilities are clearly established and documented; and
- Ensured that the engagement report reflects the work performed and intended purpose and is issued soon after the fieldwork is complete.

5.1 Role of the SP as Engagement Leader

The engagement leader is responsible for signing the engagement report. As leader of the engagement team, the SP is responsible for:

- The overall quality for each engagement;
- Forming a conclusion on compliance with requirements relating to independence from the client, and in doing so, obtaining the information required to identify threats to independence, taking action to eliminate such threats or reduce them to an acceptable level by applying appropriate safeguards, and ensuring appropriate documentation is completed;
- Ensuring that appropriate procedures regarding the acceptance and continuance of client relationships have been followed, and that conclusions reached in this regard are appropriate and have been documented;
- Ensuring that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements;
- Supervising and/or performing the engagement in compliance with professional standards and regulatory and legal requirements, and ensuring that the engagement report issued is appropriate in the circumstances;
- Communicating to key members of the client's management and those charged with governance the SP's identity and role as engagement leader;
- Ensuring, through review of the engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the engagement report to be issued;
- Taking responsibility for the engagement team by undertaking appropriate consultation (both internal and external) on difficult or contentious matters; and
- Ensuring a QCR is appointed when required by professional standards and/or the SP's policy; discussing significant matters arising during the engagement and identified during the engagement quality control review with the QCR; and not dating the report until the review is complete.

5.2 Consultation

The SP encourages consultation among the engagement team and, for significant matters with others inside and, with authorization, outside the firm. Internal consultation uses the SP's collective experience and expertise (or that available to the SP) to reduce the risk of error and improve the quality of engagement performance. A consultative environment improves the SP's or staff's learning and development process and adds strength to the SP's collective knowledge base, quality control system, and professional capabilities.

For any significant, difficult, or contentious issue identified during planning or throughout the engagement, the SP shall consult suitably qualified external persons. ***[The SP could list here all external parties with whom they have consultation arrangements.]***

When external consultation is required, the situation shall be sufficiently documented providing enough detail to allow file readers to understand the full extent of the nature of the consultation, the external expert's qualifications and relevant competencies, and the course of action recommended.

The external expert shall be supplied with all relevant facts to be able to provide informed advice. When seeking advice, it is not appropriate to withhold facts or direct the information flow in order to get a particular desired result. The external expert shall be independent of the client, free of conflict of interest, and held to a high standard of objectivity.

The external expert's advice will ordinarily be implemented as the resolution or form part of the resolution of the contentious issue. If the advice is not implemented or is substantially different from the conclusion, there shall be an explanation documenting the reasons and alternatives considered, with (or cross-referenced to) the consultation record provided by the SP.

If more than one consultation is completed, a summary of the general discussions and range of opinions or options provided shall be added to the working papers. The final position(s) adopted and the reasons for this shall also be documented.

The SP will make the final decision on all such matters, and will document the consultations and the reasons for the final decision.

5.3 Differences of Opinion

The SP and staff shall strive to be objective, conscientious, open-minded, and reasonable in assisting, facilitating, or reaching a timely and non-confrontational resolution of any disputes or differences of opinion between personnel.

Anyone who is party to a dispute or difference of opinion shall attempt to resolve the matter in a timely, professional, respectful, and courteous manner through discussion, research, and consultation with the other individual(s).

The SP will consider the matter promptly and decide, through consultation with the parties, how to resolve the matter. The SP shall then inform the parties of this decision and the reasons behind it. In all cases, the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement shall be documented.

All staff are protected from any form of retribution, career limitation, or punitive actions for bringing attention to a legitimate and significant issue, in good faith and with the true interests of the public, client, SP, or co-worker in mind.

If the individual is still not satisfied with the matter's resolution and no further recourse is available within the SP, the individual will need to consider the matter's significance, along with his or her position or continuing employment with the SP.

Disputes or differences of opinion shall be documented appropriately. In all instances, the engagement report will not be dated until the matter is resolved.

5.4 Engagement Quality Control Review (EQCR)

All engagements must be assessed against the SP's established criteria to determine whether an EQCR shall be performed. This assessment should be made, in the case of a new client relationship, before the engagement is accepted, and in the case of a continuing client, during the planning phase of the engagement.

The SP's policy shall require the resolution of all issues raised by the QCR, to their satisfaction, before dating the engagement report.

An EQCR is required before dating any audit report of the financial statements of listed entities. In any other circumstances where an EQCR is conducted, the engagement report shall not be dated until completion of the EQCR.

Examples of criteria where the SP may wish to require an EQCR:

- It is part of a set of safeguards applied where the SP has a significant and recurring independence threat resulting from a prolonged close personal relationship or close business relationship with the client, which had been previously reduced to an acceptable level by other safeguards;
- An identified threat to independence involving the SP is recurring and deemed significant but use of an EQCR may reasonably reduce these threats to an acceptable level;
- The engagement's subject matter relates to organizations that are important to specific communities or the general public;
- A large number of passive shareholders, equivalent-ownership unit holders, partners, co-venturers, beneficiaries, or other similar parties receive and rely on the engagement report;
- There is significant risk identified and associated with the decision to accept or continue the engagement;
- There are questions about an entity's ability to continue as a going concern, and the potential impact to third-party users (other than management) is significant;
- Substantial impacts and risks to users involve new and very complex specialized transactions, such as derivatives and hedges, stock-based compensation, unusual financial instruments, extensive use of management estimates, and judgments that potentially have significant impact to third-party users;
- The entity is a large private entity (or related group under the responsibility of the same engagement partner); and
- The total fees paid by the client represent a large proportion to the SP (for example, greater than 10–15%).

Additionally, there may be factors which trigger an engagement quality control review after an engagement has already commenced. These may include situations where:

- The risk of the engagement has increased during the engagement, for example, where the client becomes the focus of a takeover;
- There is concern among engagement team members that the report may not be appropriate in the circumstances;
- New and significant users of the financial statements are identified;

- The client is subject to significant litigation which was not present during the engagement acceptance process;
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement are a concern;
- There have been disagreements with management on significant accounting matters or audit scope limitations; and
- There have been scope limitations.

Provide a listing of other required criteria as determined by the SP's policy. Each SP shall determine its own EQCR criteria. For guidance, refer to Section 5.6 of the Guide.

5.4.1 Nature, Timing, and Extent of an Engagement Quality Control Review

The decision to conduct an EQCR, even if the engagement meets the criteria, and the extent of the EQCR, will depend on the engagement's complexity and associated risks. An EQCR does not diminish the SP's responsibility for the engagement.

The EQCR shall include, as a minimum:

- Discussion of significant matters with the SP;
- Review of the financial statements or other subject matter information and the proposed report;
- Review of selected working paper file documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.

The QCR shall use a standardized engagement quality control checklist in order to complete the review and provide appropriate documentation of such review.

For listed entities (and other organizations if included in the SP's policy), the EQCR must also consider:

- The engagement team's evaluation of SP's independence in relation to the specific engagement;
- 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
- Whether documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

The SP should allow a minimum of ***[insert number of days pursuant to the SP's policy]*** business days from the release date for the EQCR, with two of those days allocated for clearance of the review and completion. The time allowed for larger, more complex engagements must naturally be substantially longer. The engagement report shall not be dated until the completion of the engagement quality control review.

5.4.2 Engagement Quality Control Reviewer (QCR)

The SP is responsible for establishing criteria for the appointment of QCRs and determining their eligibility.

The QCR must be objective, independent, and a suitably qualified external person who has time to fulfill this role. The characteristics commonly attributed to a candidate suitable to serve this role include superior technical knowledge of current accounting and assurance standards and a breadth of experience which would be exhibited at a senior level.

The QCR cannot be a member of the engagement team and cannot, directly or indirectly, review his or her own work, or make important decisions regarding the performance of the engagement.

It is not unusual for the engagement team to consult with the QCR during the engagement. This will not normally compromise the QCR's objectivity, as long as the SP (and not the QCR) makes the final decisions and the issue is not overly significant. This process can avoid differences of opinion later in the engagement.

If the objectivity of the QCR becomes compromised following a consultation on a specific matter, the SP should appoint an alternate QCR.

6. Monitoring

The quality control policies and procedures are a key part of the SP's internal control system. Monitoring is a distinct component of the quality control system. It consists primarily of understanding the quality control system and determining — through interviews, walk-through tests, and inspections of engagement files and other documentation relevant to the operation of the quality control system (for example, training and continuing professional development records and independence confirmations) — whether, and to what extent, this control system is designed and operating effectively. It also includes developing recommendations to improve the system, especially if weaknesses are detected or if professional standards and practices have changed.

The SP shall designate responsibility for the monitoring process to a suitably experienced and independent party (the monitor), most likely an external person.

The SP and the monitor must be mindful of the need to inspect the quality control system for continuing effectiveness in light of recent developments and to test controls periodically through formal monitoring at the engagement file level to ensure the controls are working effectively and are not being deliberately circumvented or applied with less rigour than intended.

The SP and the monitor will also consider any feedback received from the ***[insert name of relevant professional association or institute]'s*** practice inspection and licensing regime. However, this is not a substitute for the SP's own monitoring program.

6.1 Monitoring Program

The responsibility for monitoring the application of quality control policies and procedures is separate from the overall responsibility for quality control.

The quality control system has been designed to provide the SP with reasonable assurance that significant and sustained breaches of policy and quality control are unlikely to occur or go undetected. The purpose of the monitoring program is to assist the SP in obtaining reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The program shall also help ensure compliance with practice and regulatory review requirements.

The SP and staff must co-operate with the monitor, recognizing that this individual is an essential part of the quality control system. Disagreement, non-compliance with, or disregard for the monitor's findings shall be resolved through the SP's dispute resolution process (see section 5.3 of this manual).

The suitably qualified external person(s) who conduct the review will follow the SP's established procedures for monitoring.

6.2 Inspection Procedures

Monitoring of the SP's quality control system will be completed on an annual basis. As part of the monitoring program, a selection of completed engagements shall be inspected, which may be chosen without prior notification to the engagement team.

The monitor will consider the results of previous monitoring, the nature and extent of authority given to staff, the nature and complexity of the SP's practice, and the specific risks associated with the SP's client when designing the inspection.

The SP will instruct the monitor to prepare appropriate documentation of inspections that will include:

- The results from evaluating elements of the quality control system;
- An evaluation of whether the SP has appropriately applied quality control policies and procedures;
- An evaluation of whether the engagement report is appropriate in the circumstances;
- Identification of any deficiencies, the underlying reasons why they arose, their effect, and a decision on whether further action is necessary, describing this action in detail; and
- A summary of results and conclusions reached (provided to the SP), with recommendations for corrective actions or changes needed.

The SP will meet with the monitor (along with other appropriate personnel) to review the report and decide on the corrective action and/or changes to make to the system, roles and responsibilities, disciplinary action, recognition, and other matters as determined.

6.3 Evaluating, Communicating, and Remedying Deficiencies

The SP shall consider whether the identified deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by the SP or a particular staff member. The SP shall also communicate all deficiencies detected and reported by the monitor to the relevant personnel, together with recommendations for remedial action.

Recommendations to address reported deficiencies shall focus on addressing the underlying reasons for those deficiencies and shall include one or more of the following:

- Take appropriate remedial action in relation to the individual engagement or member(s) of personnel (for example, as set out in section 6.4.1 below);
- Communicate the findings to the HR;
- Amend the quality control policies and procedures; and
- Take disciplinary action in line with section 4.4 of this manual.

If it appears that the SP has issued an inappropriate engagement report or that the engagement report's subject matter contained a misstatement or inaccuracy, the SP shall determine what further actions are appropriate in order to comply with professional standards and regulatory and legal requirements. In such a circumstance, the SP will also consider obtaining legal advice.

If deficiencies are determined to be systemic or repetitive, immediate corrective action will be taken. In most cases, deficiencies related to independence and conflict of interest will require immediate corrective action.

6.4 Report on the Results of Monitoring

After completing the assessment of the quality control system, the monitor must report the results to the SP. The report must be sufficient to enable the SP to take prompt and appropriate action where necessary, and must also include a description of the procedures performed and the conclusions drawn from the review. If

systemic, repetitive, or significant deficiencies are noted, the report must also include the action taken, or proposed, to resolve them.

The monitor's report will, at a minimum, include:

- A description of monitoring procedures performed;
- The conclusions drawn from monitoring procedures; and
- Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken, together with any further recommended actions, to resolve these deficiencies.

Insert sample of SP Monitor's Report

6.4.1 Non-compliance

Non-compliance with the SP's quality control system is a serious matter, particularly if staff has willfully refused to comply with the SP's policy.

Since the quality control system is in place to protect the public interest, the SP will address willful non-compliance transparently and rigorously. Willful non-compliance will be addressed in a number of ways, including instituting a plan to improve performance; performance reviews and reconsideration of opportunities for promotion and increased compensation; and ultimately termination of employment.

6.5 Complaints and Allegations

The SP manages all matters concerning complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements, and allegations of non-compliance with the firm's quality control system.

Complaints and allegations — particularly concerning failure to exercise a duty of care in relation to client work, or other breach of professional or legal duties by staff toward each other or clients — are serious matters. The SP shall give serious consideration to notifying the firm's professional liability insurance company and/or seeking legal advice. If there is any uncertainty, the SP shall consult other trusted external professional colleagues.

Any complaint received from a client or other third party will be responded to at the earliest practical moment, with an acknowledgement that the matter is being attended to, and that a response will be forthcoming after it has been appropriately investigated.

The SP maintains a defined policy with accompanying procedures that details the procedures to be followed if a complaint or allegation arises.

The process provides that all staff are free to raise concerns without fear of reprisal

Insert additional SP policy or procedures that may describe the process to be followed in such a circumstance. For guidance, refer to Section 6.6 of the Guide.

If the investigation reveals 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 one or more individuals, the SP shall take appropriate action including one or more of the following:

- Take appropriate remedial action in relation to the individual engagement or member(s) of personnel (for example, as set out in section 6.4.1 above);
- Communicate the findings to the HR;
- Amend the quality control policies and procedures; and
- Take disciplinary action in line with section 4.4 of this manual.

7. Documentation

7.1 Documentation of the SP's Policies and Procedures

The SP maintains policies and procedures that specify the level and extent of documentation required in all engagements and for general use (as established in the SP manual/engagement templates). The SP also maintains policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control 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.

These policies ensure that documentation is sufficient and appropriate to provide evidence of:

- Adherence to each element of the SP's quality control system; and
- Support for each engagement report issued, according to professional and SP standards and regulatory and legal requirements, together with evidence that the EQCR has been completed on or before the date of the report (if applicable).

7.2 Documentation of the Engagement

It is the SP's policy that engagement documentation shall include:

- Engagement planning checklist or memorandum;
- Identified issues with respect to ethics requirements (including demonstration of compliance);
- Compliance with independence requirements and documentation of any discussions related to these issues;
- Conclusions reached with respect to acceptance and continuance of client relationship;
- Procedures performed to assess the risk of material misstatement due to fraud or error at the financial statement and assertion level;
- Nature, timing, and extent of procedures performed in response to assessed risk including results and conclusions;
- Nature, scope, and conclusions drawn from consultations;
- All communications issued and received;
- Results of the EQCR which has been completed on or before the date of the report;
- Confirmation that no unresolved matters exist that would cause the reviewer to believe that the significant judgments made and conclusions drawn were not appropriate;
- Conclusion that sufficient, appropriate audit evidence has been accumulated and evaluated, and supports the report to be issued; and
- File closing, including appropriate sign-off.

> Insert additional minimum engagement documentation requirements as desired. For guidance, refer to Section 7.3 of the Guide.

The SP's policy requires that final assembly of the engagement file be completed within ***[state number of days, ordinarily no more than 60 days after the date of the auditor's report]***. If there are two or more

reports issued for the same subject matter information, the SP's policy should indicate that the time limits for assembly of the engagement file should be such that each report is treated as if it were a separate engagement.

Engagement documentation of any kind must be retained for a period of no less than ***[state period of retention, normally not shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report]*** to allow those performing monitoring procedures to evaluate the extent of the SP's compliance with its internal control system, as well as the needs of the firm, as required by professional standards, law, or regulations.

7.3 Documentation of the Engagement Quality Control Review

Each professional engaged by the SP serving in the capacity of QCR must complete the SP's standardized EQCR checklist, in order to provide documentation that the review was performed. This must include confirmation and supporting evidence or cross-references to it, affirming that:

- Appropriately qualified external professional(s) have performed the procedures required for an EQCR;
- The review was completed on or before the date of the engagement report;
- No unresolved matters have come to the QCR's attention that would cause him or her to believe that the significant judgments the engagement team made and the conclusions reached were not appropriate.

7.4 File Access and Retention

The SP has established policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the engagement documentation.

These policies include consideration of various retention requirements under statute and regulations to ensure that engagement documentation is retained for a period sufficient to meet the needs of the SP.

All working papers, reports, and other documents prepared by the SP, including client-prepared worksheets, are confidential and shall be protected from unauthorized access.

The SP must approve all external requests to review working papers.

Working papers will not be made available to third parties unless:

- The client has authorized disclosure in writing;
- There is a professional duty to disclose the information;
- Disclosure is required by a legal or judicial process; or
- Disclosure is required by law or regulation.

Unless prohibited by law, the SP must inform and obtain written authorization from the client before making working papers available for review. An authorization letter must be obtained when there is a request to review files from a prospective purchaser, investor, or lender. Legal advice shall be sought if the client does not authorize disclosure of information.

In the event of litigation or potential litigation, or regulatory or administrative proceedings, working papers shall not be provided without obtaining consent from the SP's legal counsel.

The SP's policy dictates the number of years for which retention will apply for each of the following types of files:

Permanent files	***[number of years]***
Tax files	***[number of years]***
Financial statements and reports	***[number of years]***
Annual or periodic working papers	***[number of years]***
Correspondence	***[number of years]***

The minimum retention period for former client working papers and files shall be ***[number of years]***.

An accessible, permanent record of all files stored off-site will be maintained, and each storage container will be appropriately labelled for easy identification and retrieval. The SP shall approve any destruction of files and keep permanent records of all materials destroyed.

7.5 Complaints and Allegations

Complaints and allegations against the firm shall be documented, together with the SP's response.

Appendix: Mapping of ISQC 1 to the Quality Control Manual

The following table shows the correlation between ISQC 1 and the corresponding section and paragraph (shown in parentheses) of the Quality Control Manual.

ISQC 1 Paragraph	QC Manual Section (paragraph)
1–10	Not considered necessary [3]
11	General Policy Statement (1)
12	Cover sheet (shaded box)
13-17	Not considered necessary [4]
18	1.1 (2)
19	1.1 (4)
20	2
21	2.1
22	2.1 (4, 5, 6)
23	2.1 (8, 9)
24	2.1 (7)
25	2.1.1 and 2.1.2
26	3.1
27	3.1.1 - 3.1.3
28	3.1.3 (2) and 3.2
29	4
30	4.3
31	4.3 (1)
32	5
33	5 (5)
34	5.2
35	5.4
36	5.4.1

ISQC 1 Paragraph	QC Manual Section (paragraph)
37	5.4.1 (2)
38	5.4.1 (4)
39	5.4.2
40	5.4.2
41	5.4.2
42	7.3
43	5.3
44	5.3 (6)
45	7.2 (2)
46	7.4
47	7.4
48	6 (1, 2), 6.1 (2) and 6.2 (1)
49	6.3 (1)
50	6.3 (1)
51	6.3 (2)
52	6.3 (3)
53	6.4
54	Not considered necessary [5]
55	6.5
56	6.5 (6)
57	7.1
58	7.1
59	7.5

3 These paragraphs introduce the scope, authority and effective date of the standard.
4 These paragraphs are implicit in the existence and content of the Manual.
5 This paragraph applies to network firms only.

SAMPLE

QUALITY CONTROL MANUAL

TWO- TO FIVE-PARTNER FIRM

Sample Manual — Who is it for? How do you use it?

The policies and procedures suggested in this sample manual are for those firms comprised of two to five partners and are designed to assist such firms establish and implement a system of quality control in compliance with ISQC 1. The content of this manual should be reviewed and amended to fit the circumstances of each firm. The acronyms used to designate leadership positions should be changed to reflect the titles used within the firm. Words and phrases defined in ISQC 1 and the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* have the same meaning in this manual.

For the purposes of this manual, the term "staff" refers to professionals, other than partners, including any experts the firm employs.

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General Policy Statement

The firm's objective is to establish, implement, maintain, monitor, and enforce a quality control system that meets, as a minimum, the requirements of the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* ***[or equivalent professional standards and applicable regulatory and legal requirements in the firm's jurisdiction]***. The quality control system is intended to provide the firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

> Insert firm documents which provide details of the mission statement and/or firm goals. For guidance on materials which might be included, please refer to the General Policy Statement section of the Guide.

General Roles and Responsibilities of All Partners and Staff

Each partner and staff member is, to varying degrees, responsible for implementing the firm's quality control policies.

The overriding message to all partners and staff is a commitment to quality, and to encourage and promote those who are equally committed to this agenda.

The Managing Partner (MP) has ultimate authority and responsibility for the system of quality control. (In a two or three partner firm where it is less likely there is such a position as MP, this responsibility might, for example, be shared across the management board or rotated on an annual or other basis among the partners.)

Our firm's common values include ***[identify common values as reflected by the firm's culture]***.

All partners and staff are required to conform to the following guidelines:

- Treating ethical behavior and quality of service as the first priority; commercial considerations may not override the quality of the work performed;
- Reading, understanding, and following the IESBA Code;[1]
- Understanding the partner and staff responsibilities to identify, disclose, and document threats to independence and the process to be followed to address and manage identified threats;
- Avoiding circumstances where independence may be (or appear to be) impaired;
- Complying with continuing professional development requirements including maintenance of records as evidence thereof;
- Remaining abreast of current developments in the profession, applicable financial reporting framework and assurance standards (for example, IFRSs, ISAs), disclosure and accounting practices, quality control, firm standards, and relevant industry and client-specific developments;

1 Or member body code of ethics

- Providing other partners and staff with courteous assistance, when needed and requested, to help them learn through shared knowledge and experience and improve the quality of client service;
- Keeping time records (regularly entered into the firm's time and billing systems) to track and identify time spent on engagement and office activities (both chargeable and non-chargeable);
- Safeguarding and properly using and maintaining office and computer equipment (including network and communication resources) and other shared assets. This includes using the firm's technological resources only for appropriate business purposes, taking into consideration ethics, client confidentiality, and privacy;
- Keeping firm and client data, business and client information, and personal information secure and confidential;

  Insert sample of firm's Declaration of Confidentiality.

- Ensuring that firm-generated electronic-based information on the client or firm is stored on the firm network according to appropriate information storage procedures;
- Informing a partner or manager of any observations of significant breaches in firm quality control, ethics including independence, confidentiality, or inappropriate use of firm resources (including Web and e-mail systems);
- Documenting and maintaining appropriate records of all significant client contacts when professional advice is given or requested;
- Documenting and maintaining appropriate records of all significant consultations, discussions, analyses, resolutions, and conclusions on independence threat management, difficult or contentious issues, differences of opinion, and conflicts of interest; and
- Following the firm's standard practices for work hours, attendance, administration, meeting deadlines, and quality control.

  Insert additional guidelines as desired. For guidance on materials which might be included, please refer to the General Policy Statement section of the Guide.

1. Leadership Responsibilities for Quality Within the Firm

1.1 Tone at the Top

The firm's partners decide on all key matters regarding the firm and its professional practice.

The partners accept responsibility for leading and promoting a quality assurance culture within the firm and for providing and maintaining this manual and all other necessary practical aids and guidance to support engagement quality.

The partners are responsible for determining the firm's operating and reporting structure. In addition, the firm will designate from among ourselves or other qualified staff, on an annual or other periodic basis, the person(s) responsible for the elements of the quality control system.

The overall responsibility for the quality control system rests with the Managing Partner (MP).

Any individuals who take on specific responsibilities and duties for the quality control system shall have sufficient and appropriate experience and ability, and the necessary authority, to carry out their responsibilities.

1.2 Leadership Positions

Throughout this quality control manual, reference is made to various leadership positions within the firm. Partners may serve more than one role as long as all personnel have a clear understanding of each partner's responsibilities. These roles are defined as follows:

MP (Managing Partner). Responsible for monitoring the effectiveness of work performed by all other leadership positions. In small- and medium-sized practices, this position is also ordinarily responsible for all complaint and allegation matters. (This function may be shared more or less equally in a two or three partner firm. In many four or five partner firms, this function is assigned to one partner and sufficient time and compensation are allocated to support the assignment.)

QCR (Quality Control Reviewer). Any professional performing the function of engagement quality control review.

EL (Ethics Leader). Person required to consult and respond on all matters related to ethics, including independence, conflict of interest, and privacy and confidentiality. (Even in a two-partner firm, one partner is likely more informed about and interested in ethical rules and practices; in three-to-five partner firms, with proportionally more staff, it is valuable to identify a specific person for partner or staff consultation on ethical matters.)

HR (Human Resources). Personnel responsible (need not be a partner) for all human resource functions, including recordkeeping with respect to professional duties such as fees and continuing professional development.

2. Relevant Ethical Requirements

The firm and its personnel shall comply with relevant ethical requirements including, as a minimum, those set out in the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and any additional local regulatory requirements.

The firm recognizes the value and authority of the Ethics Leader (EL) in all ethical matters. The EL has responsibility for:

- Maintenance of the firm's ethics policies;
- Identifying required policy changes as they relate to ethics (particular emphasis will be placed on this function following each monitor's report – see section 6 of this manual);
- Providing guidance and consultation on ethics-related matters to partners and staff (for example, independence, conflict of interest);
- Maintenance of a client listing of all public interest entities (for independence purposes);
- Monitoring compliance with firm policy and procedures on all ethics matters;
- Reporting instances of non-compliance with firm policy to the MP; and
- Coordinating training with the HR for all ethics-related matters.

2.1 Independence

The partners and all staff must be independent both of mind and in appearance of their assurance clients and engagements.

Independence shall be maintained as set forth in and by:

- The IESBA Code, specifically Section 290 and Section 291;
- ISQC 1; and
- any additional local requirements

If threats to independence cannot be eliminated or reduced to an acceptable level by applying appropriate safeguards, the firm shall eliminate the activity, interest, or relationship that is creating the threat, or refuse to accept or continue the engagement.

Instances of non-compliance with the independence requirements shall be reported to the MP.

Insert sample of Firm's Acknowledgement of Independence form.

2.1.1 Responsibilities — The Firm

The firm is responsible for the development, implementation, monitoring, and enforcement of policies and procedures designed to assist all partners and staff in understanding, identifying, documenting, and managing independence threats and for the resolution of independence issues.

The EL is responsible for communicating all identified instances of non-compliance to the engagement

partner and other relevant individuals. The EL must also ensure an appropriate resolution of independence threats that have not been adequately resolved or reduced to an acceptable level, and report instances of non-compliance to the MP.

The EL is also responsible for maintaining a database which provides a listing of all clients from whom independence is required and, therefore, for whom investment in these clients is prohibited. For public interest entity clients, the database includes related entities. All partners and staff shall be made aware of the database and how to access it.

The MP is ultimately responsible on the firm's behalf and, therefore (after consultation with other partners, if needed), has the final decision on any independence threat resolution, including:

- Resignation from a specific engagement or client relationship;
- Determining and imposing specified safeguards, actions, and procedures to address threats appropriately;
- Hearing and investigating unresolved independence compliance concerns raised by members of the assurance team (or by other partners or staff);
- Ensuring appropriate documentation of the process and resolution of each significant independence issue;
- Invoking sanctions for non-compliance;
- Initiating and participating in pre-emptive planning measures to help avoid and address potential independence concerns;
- Arranging additional consultation, if needed; and
- Instituting and maintaining a policy requiring all partners and staff to review their specific circumstances and advise the firm of any independence threats.

The firm must document the details of identified threats and the safeguards that were applied.

2.1.2 Responsibilities — Partners and Staff

The firm expects all partners and staff to maintain current knowledge of the provisions contained within the IESBA Code. This will require all partners and staff to assume personal responsibility for the periodic review of the IESBA Code contents.

All partners and staff are required to be aware of and understand the IESBA Code Section 290 and Section 291 and any additional local requirements. The firm's independence policy requires all members of the assurance team to meet these provisions for all assurance engagements and reports issued.

All partners and staff are required to provide the firm annually with written confirmation that they understand and have complied with Section 290 and Section 291 of the IESBA Code and the firm's independence policies.

All partners and staff are required to review their specific circumstances for any independence threats, and to promptly inform the EL of any such threats identified.

Each engagement partner shall provide the firm with relevant information about their client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence

requirements. In order to facilitate this:

- Each partner or staff member assigned to an assurance engagement shall confirm to the engagement partner that he or she is independent of the client and engagement, or notify the engagement partner of any threats to independence so that appropriate safeguards can be applied.
- Partners and staff must notify the engagement partner if, to their knowledge, any member of the assurance team has, during the disclosure period, provided any service that would be prohibited under Section 290 and Section 291 of the IESBA Code or other local requirement, which could result in the firm being unable to complete an assurance engagement.

The engagement partner shall take whatever reasonable actions are necessary and possible to eliminate or reduce any independence threat to an acceptable level through the application of appropriate safeguards. These actions may include:

- Replacing a member of the engagement team;
- Ceasing or altering specific types of work or services performed in an engagement;
- Divesting of a financial or ownership interest;
- Excluding the member of the engagement team from any significant decision-making concerning the engagement;
- Ceasing or changing the nature of personal or business relationships with clients;
- Submitting work for additional review by other partners and staff; and
- Taking any other reasonable actions that are appropriate in the circumstances.

The engagement partner shall promptly communicate to the firm the actions taken to resolve the matter so that the firm can determine whether it should take further action.

Partners and staff shall make referrals to the EL in all instances where an independence issue has arisen that requires further consultation and discussion in order to determine appropriate disposition of the matter. Such matters, once determined, will be documented.

If a partner or staff member is not satisfied that an independence issue or concern is being appropriately addressed or resolved, the individual shall inform the MP.

2.1.3 Long Association of Senior Personnel (Including Partner Rotation) on Audit Engagements for Public Interest Entities

The partners and staff must follow Section 290 of the IESBA Code, and any additional local requirements, regarding mandatory rotation of engagement partners, the QCR, and any other partners on the engagement team who make key decisions or judgments on significant matters with respect to all audit engagements for public interest entities.

In accordance with the IESBA Code (paragraph 290.151), when the audit client is a public interest entity, and an individual has been a key audit partner for a period of ***[state number of years in accordance with firm policy, no more than seven years]***, this individual shall not participate in the engagement until ***[a further period of time, not less than two years]*** has elapsed. Some degree of flexibility may be permitted in rare cases due to unforeseen circumstances outside of the firm's control and where the individual's continuity on the

audit engagement is especially as a key audit partner important to audit quality. In these cases, equivalent safeguards will be applied to reduce any threats to an acceptable level. Such safeguards, at a minimum, will include an additional review of the work performed by another partner or alternate QCR who has not been associated with the audit team. The circumstances under which rotation would not be recommended or required should be compelling. When a significant independence threat involving the engagement partner or QCR is recurring, rotation would be the primary safeguard necessary to reduce the threat to an acceptable level.

Assessing independence of the assurance team is an important part of client acceptance and continuance procedures. When the assessment concludes that rotation of any individual is necessary, the matter must be referred to the EL.

When a matter is referred to the EL, it is presumed that rotation of some kind is required.

After reviewing the circumstances and consulting other partners, the EL will provide a decision in writing as soon as possible on whether rotation is necessary. If rotation is deemed necessary, the MP will assign the new party and specify the length of the stand-down period and any other relevant requirements.

2.1.4 Rotation of Personnel on Audit Engagements for Non-listed Entities

For non-listed entities, if rotation is deemed necessary, the EL will identify the replacement and specify the period for which the individual shall not participate in the audit of the entity and other safeguards necessary to comply with any other relevant requirements.

3. Acceptance and Continuance of Client Relationships and Specific Engagements

3.1 Acceptance and Continuance

The firm shall only accept new engagements or continue existing engagements and client relationships where it has the capabilities, including time and resources, to do so, and can comply with ethical requirements and has considered the integrity of the (prospective) client and has no information to conclude that the (prospective) client lacks integrity.

The engagement partner shall approve the acceptance or continuance of the engagement, in accordance with the firm policies and procedures, and shall document such approval.

3.1.1 Prospective New Clients

An evaluation of a prospective client and authorized approval shall be undertaken, and documented, before issuance of any client proposal. The evaluation process will include:

- an assessment of the risks associated with the client; and
- inquiry of appropriate personnel and third parties (including the predecessor firm).

The firm may also engage in background searches, such as making use of any online information that may be readily available.

Once a determination has been made to accept a new client, the firm shall comply with the relevant ethical requirements (such as communicating with the former firm if required by the member body code of ethics) and will prepare an engagement letter for signature by the new client.

3.1.2 Existing Clients

For each ongoing engagement, a documented client continuance review will be required to determine whether it is appropriate to continue providing the client with services, based on the prior engagement and planning for the continuing engagement. This review will also include consideration of any rotation requirements.

3.1.3 Prospective New Clients and Existing Clients

The engagement partner shall not approve the acceptance of a new engagement client or the continuance of an existing client, without agreement in writing from another partner, if any high risks are identified resulting from consideration of:

- Whether the partners and staff are, or can reasonably become, sufficiently competent to undertake the engagement (this would include knowledge of the industry and subject matters and experience with the regulatory or reporting requirements);
- Access to any experts that may be required;
- Identification and availability of the individual assigned to perform the engagement quality control review (if required);

- Any proposed use of another auditor's or accountant's work (including any collaboration which may be necessary with other offices of the firm or network firms);
- The ability to meet the engagement's reporting deadline;
- Whether there are any actual or potential conflicts of interest;
- Whether any identified independence threats have or can have safeguards applied and maintained to reduce them to an acceptable level;
- The quality of the (potential) client's management, as well as those charged with governance and those who control or exert significant influence over the entity, including their integrity, competence, and business reputation (including consideration of any lawsuits or negative publicity surrounding the organization), together with present and past firm experience;
- The attitude of these individuals and groups towards the internal control environment and their views on aggressive or inappropriate interpretations of accounting standards (including consideration of any modified reports that have previously been issued and the nature of the qualifications);
- The nature of the entity's operations, including its business practices and the fiscal health of the organization;
- Whether the firm is under pressure from the client to keep the billable hours (fees charged) at an unreasonably low level;
- Whether the firm expects any scope limitations;
- Whether there are any signs of criminal involvement; and
- The reliability of the work done by the preceding firm and how this predecessor has responded to communications (this would include knowledge of the reasons the client left the previous firm).

Insert additional firm policy or acceptance criteria as desired. For guidance, refer to Section 3.2 of the Guide.

If significant risks associated with the client or engagement are identified, the matter shall be discussed with the MP. The formal approval of the MP will be required, and the firm must document how the issues were resolved. If the concerns involve ethics-related matters, the EL must also provide approval.

If, after accepting or continuing an engagement, the firm receives information, which, if known earlier, would have resulted in a refusal of the engagement, the firm must consider whether to continue the engagement and will normally seek legal advice regarding its position and options to ensure that it meets all relevant professional, regulatory, and legal requirements.

3.2 Withdrawal from an Engagement or Client Relationship

The following process shall be followed when considering withdrawal from an engagement or client relationship:

(i) A partner will undertake to meet with the client's management and those charged with governance to discuss the actions that may be taken, given the relevant facts and circumstances.

(ii) If withdrawal is consequently considered appropriate, the firm will document the significant matters which led to the withdrawal, including the results of any consultation, the conclusions reached, and the

basis for these conclusions. The firm will also consider whether it has a professional, regulatory or legal obligation to report the withdrawal of the engagement to any relevant authorities.

(iii) If there is a professional, regulatory or legal requirement which compels the firm to continue the engagement, the reasons for continuance should be documented, including consideration of consultation with the legal counsel.

4. Human Resources

The firm recognizes the value and authority of the HR in all human resource matters. The HR has responsibility for:

- Maintenance and implementation of human resource policies designed to provide reasonable assurance that the firm has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:
  - Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
  - Enable the firm or engagement partners to issue reports that are appropriate in the circumstances;
- Identifying required policy changes resulting from labor laws and regulations, and to remain competitive in the marketplace;
- Providing guidance and consultation on human resource related matters;
- Maintenance of performance evaluation appraisal systems;
- As requested, recommending specific actions or procedures appropriate to the circumstance (for example, discipline, recruitment);
- Developing, and periodically monitoring, an annual training and professional development plan for all personnel;
- Development and delivery of orientation training; and
- Maintenance of personnel files (including annual declarations of independence, acknowledgement of confidentiality, and training and continuing professional development reports).

4.1 Recruitment and Retention

The MP and HR must assess professional service requirements in order to ensure the firm has the capacity and competence necessary to meet its clients' needs. This will ordinarily include developing a detailed expectation of engagement requirements over the course of each calendar period in order to identify peak periods and potential resource shortages.

The HR uses current application, interviewing, and documentation processes with respect to hiring.

The HR will consider the following items when the firm is seeking candidates for employment:

- Verifying academic and professional credentials and checking references;
- Clarifying gaps in time on candidates' resumes;
- Considering credit and criminal-record checks;
- Clarifying with candidates the firm's requirement to state in writing, annually and for each assurance engagement, whether they are independent and free of conflict of interest; and
- Informing candidates of the requirement to sign a declaration regarding understanding of, and compliance with, the firm's confidentiality policy.

Insert additional firm policy or procedures for recruitment as desired here. For guidance, refer to Section 4.2 of the Guide.

The firm requires all new personnel to be provided with orientation information as soon as is practical after commencing employment. The orientation materials will include a complete copy of the firm's policies and procedures. A probationary period of ***[specify length of period]*** applies to all new personnel.

The firm endeavors to identify opportunities for its personnel's career development in order to retain competent professionals and to provide support for the firm's sustainability and continued growth.

The firm periodically reviews the effectiveness of its recruitment program together with an assessment of its current resource needs to identify whether revisions to the program are required.

4.2 Training and Continuing Professional Development (CPD)

Partners and staff must meet the minimum continuing professional development requirements as defined in ***[state local jurisdiction or member body requirements]*** and any additional identified training needs which are appropriate for their level and responsibilities.

Attendance at external professional development courses must be approved by HR.

Partners and staff are responsible for maintaining their own professional development records (and, where applicable, adhering to the firm's guidelines). The MP or HR collects and reviews these records annually with each partner or staff member in order to ensure the required training and CPD has been undertaken and, if relevant, to determine appropriate actions to address any shortfalls.

4.3 Assignment of Engagement Teams

Through its policies and procedures, the firm ensures the assignment of appropriate partners and staff (individually and collectively) to each engagement. The responsibilities of the engagement partner are clearly defined in section 5.1 of this manual and in the engagement templates provided by the firm. The engagement partner, in consultation with the MP, plans the assignment of partners and staff. The engagement partner is also responsible for ensuring that the individuals assigned, and the engagement team as a whole, have the necessary competencies to complete the engagement according to professional standards and the firm's quality control system.

The identity and roles of the engagement partner will be communicated to the client's management and other parties responsible for the entity's governance.

The firm is responsible for ensuring that the engagement partner assigned to each assurance engagement has the necessary competencies and enough time to assume overall responsibility for performing the engagement according to professional standards and applicable regulatory and legal requirements.

When determining the appropriate personnel to assign to an engagement, particular attention will be given to their technical knowledge, qualifications and experience. Continuity with the client, balanced with rotation requirements, will also be considered.

The engagement partner will also plan for coaching opportunities between junior and senior personnel to guide the development of less experienced staff on engagements.

The MP has ultimate responsibly and authority for all engagement scheduling matters and will be the final arbiter regarding human and other resource conflicts to reach a solution which does not compromise the quality of the engagements.

4.4 Enforcement of Quality Control Policies (Discipline)

The firm's quality control system requires more than just effective monitoring. An enforcement process is essential, and includes consequences and corrective procedures for non-compliance, disregard, lack of due care and attention, abuse, and circumvention.

The MP has overall responsibility for the firm's disciplinary process. Corrective action is determined and administered through a consultative process, not in an autocratic fashion. The corrective action taken will depend on the circumstances.

Serious, willful, and repeated infractions or disregard for firm policies and professional rules cannot be tolerated. Appropriate steps must be taken to correct the partner or staff member's behavior or terminate the person's relationship with the firm.

Corrective action taken by the firm will depend on the circumstances. Such actions might include, but are not limited to:

- Interviewing the person(s) involved to establish the facts and discuss causes and solutions;
- Counselling and/or mentoring; and
- Conducting follow-up interviews to ensure compliance has improved or to caution the staff involved that stronger corrective action will otherwise be required to protect the interest of clients and the firm, such as:
    - Reprimand (either oral or written);
    - Mandatory requirement to complete defined continuing professional development;
    - Written record filed in the personnel file;
    - Employment suspension;
    - Termination of employment; or
    - Formal notification filed with the professional association's discipline committee

Insert additional firm policy or procedures that will be a consequence of discipline as desired here. For guidance, refer to Section 4.5 of the Guide.

4.5 Rewarding Compliance

Compliance with the firm's policies will feature prominently in the evaluation of individual partners and staff, both on an ongoing basis and in the regularly scheduled personnel review process.

Appropriate weighting will be assigned to the traits identified in the assessment of job performance and in determining remuneration levels, bonuses, advancement, career development, and authority within the firm. Quality shall feature prominently in such weighting.

Performance appraisals, conducted on a periodic basis, will include the form and content as defined by firm policy.

Insert sample of firm's Performance Appraisal form.

5. Engagement Performance

Through established policies and procedures and its quality control system, the firm requires that engagements be performed according to professional standards and applicable regulatory and legal requirements.

The firm's overall systems are designed to provide reasonable assurance that the firm and its partners and staff adequately and properly plan, supervise, and review engagements and produce engagement reports that are appropriate in the circumstances.

To facilitate partner and staff performance on engagements consistently and according to professional standards and regulatory and legal requirements, the firm provides sample working paper templates for documenting the engagement process for clients. These templates are updated as required to reflect any changes in professional standards. Staff use these templates to document key facts, risks, and assessments related to acceptance or continuation of each engagement. Staff are encouraged to exercise professional judgment when modifying such templates to ensure that such matters are appropriately documented and assessed for each engagement in accordance with professional standards and firm policies.

Also available are research tools and reference materials; a quality control system, as set out in this manual; appropriate industry-standard software and hardware tools, including data and system access security; and guidance, training, and education policies and programs, including support for compliance with ***[state applicable jurisdiction]*** professional development requirements.

Supervision and review responsibilities shall be determined by the engagement partner and may vary between engagements. Review responsibilities shall be determined on the basis that the work of less experienced team members is reviewed by more experienced engagement team members. Reviewers shall consider whether engagement teams have:

- Used (modifying as appropriate) the firm's templates for file preparation, documentation, and correspondence, as well as its software, research tools, and the signing and release procedures appropriate for the engagement;
- Followed and adhered to the ethical policies of the profession and the firm;
- Performed their work to professional and firm standards with due care and attention;
- Documented their work, analysis, consultations, and conclusions sufficiently and appropriately;
- Completed their work with objectivity and appropriate independence, on a timely and efficient basis, and documented the work in an organized, systematic, complete, and legible manner;
- Ensured that all working papers, file documents, and memoranda are initialled, properly cross-referenced, and dated, with appropriate consultation on difficult or contentious matters;
- Ensured that appropriate client communications, representations, reviews, and responsibilities are clearly established and documented; and
- Ensured that the engagement report reflects the work performed and intended purpose and is issued soon after the fieldwork is complete.

5.1 Role of the Engagement Partner

The engagement partner is responsible for signing the engagement report. As leader of the engagement team, this individual is responsible for:

- The overall quality for each engagement to which the engagement partner is assigned;
- Forming a conclusion on compliance with requirements relating to independence from the client, and, in doing so, obtaining the information required to identify threats to independence, taking action to eliminate such threats or reduce them to an acceptable level by applying appropriate safeguards, and ensuring that appropriate documentation is completed;
- Ensuring that appropriate procedures regarding the acceptance and continuance of client relationships have been followed, and that conclusions reached in this regard are appropriate and have been documented;
- Communicating promptly to the firm any information obtained that would have caused the firm to decline the engagement if that information had been available earlier, so that the firm and the engagement partner can take the necessary action;
- Ensuring that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements;
- Supervising and/or performing the engagement in compliance with professional standards and regulatory and legal requirements, and ensuring that the engagement report issued is appropriate in the circumstances;
- Communicating to key members of the client's management and those charged with governance his or her identity and role as engagement partner;
- Ensuring, through review of the engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the engagement report to be issued;
- Taking responsibility for the engagement by undertaking appropriate consultation (both internal and external) on difficult or contentious matters; and
- Ensuring a QCR is appointed when required by professional standards and/or firm policy; discussing significant matters arising during the engagement and identified during the engagement quality control review with the QCR; and not dating the report until the review is complete.

5.2 Consultation

The firm encourages consultation among the engagement team and, for significant matters, with others inside and, with authorization, outside the firm. Internal consultation uses the firm's collective experience and technical expertise (or that available to the firm) to reduce the risk of error and improve the quality of engagement performance. A consultative environment improves the partner or staff's learning and development process and adds strength to the firm's collective knowledge base, quality control system, and professional capabilities.

For any significant, difficult, or contentious issue identified during planning or throughout the engagement, the engagement partner shall ensure consultation takes place with those who have the appropriate

experience, knowledge, competency, and authority. This may be with other partners or staff or, if necessary, suitable external parties ***[the firm could list here all external parties with whom it has consultation arrangements]***. All professionals within the firm should be willing to assist each other in dealing with and reaching conclusions on such problematic issues.

The firm will ensure the availability of sufficiently skilled personnel and financial and information resources to allow appropriate internal or external consultations to take place.

When internal consultation is sought and the issue is determined to be significant, the engagement team member shall document the consultation and the result. When external consultation is required, and authorized by the engagement partner or MP, the situation shall be formally documented. The external expert's opinions or positions shall be sufficiently documented, providing enough detail to allow file readers to understand the full extent of the nature of the consultation, the external expert's qualifications and relevant competencies, and the course of action recommended.

The external expert shall be supplied with all relevant facts to be able to provide informed advice. When seeking advice, it is not appropriate to withhold facts or direct the information flow in order to get a particular desired result. The external expert shall be independent of the client, free of conflict of interest, and held to a high standard of objectivity.

The external expert's advice will ordinarily be implemented as the resolution or form part of the resolution of the contentious issue. If the advice is not implemented or is substantially different from the conclusion, there shall be an explanation documenting the reasons and alternatives considered, with (or cross-referenced to) the consultation record provided by the engagement partner.

If more than one consultation is completed, a summary of the general discussions and range of opinions or options provided shall be added to the working papers. The final position(s) adopted and the reasons for this shall also be documented.

For all external consultations, privacy rights and client confidentiality requirements must be observed. It may be necessary to seek legal advice on these or other issues regarding ethics, professional conduct, or regulatory and legal matters.

5.3 Differences of Opinion

The firm and its partners and staff shall take any steps necessary, according to firm and professional standards, to adequately identify, consider, document, and resolve differences of opinion that may arise in a wide range of circumstances.

All partners and staff shall strive to be objective, conscientious, open-minded, and reasonable in assisting, facilitating, or reaching a timely and non-confrontational resolution of any disputes or differences of opinion.

Anyone who is party to a dispute or difference of opinion shall attempt to resolve the matter in a timely, professional, respectful, and courteous manner through discussion, research, and consultation with the other individual(s).

If the matter cannot be resolved or there is uncertainty over what action shall be taken, the parties shall refer the matter to a more senior engagement team member or the engagement partner.

If the issue involves a specific area of professional oversight or practice administration within the firm, it shall be referred to the partner responsible for this area, preferably by the engagement partner. The engagement partner will consider the matter and decide, through consultation with the parties, how to resolve the matter. That partner shall then inform the parties of the decision and the reasons behind it.

If a dispute or difference of opinion remains, or one or more of the individuals involved is not satisfied with the partner's decision(s), the individual(s) shall consider whether the matter is enough of a quality control concern or may be of sufficient impact to warrant referring it directly to the engagement partner or MP.

All partners and staff are protected from any form of retribution, career limitation, or punitive actions for bringing attention to a legitimate and significant issue, in good faith and with the true interests of the public, client, firm, or co-worker in mind.

Partners and staff shall understand that referring a matter beyond an engagement team or engagement partner level is serious and must not be minimized since it will likely require substantial partner time to address. The referral can be verbal if highly sensitive or confidential (although the practice of verbal referrals is discouraged), or in writing.

The MP will consider the issue, and if it is determined to be significant and with merit, will consult with other partners and inform the parties involved of the firm's decision. In all cases, the nature and scope of, conclusions resulting from, and consultations undertaken during the course of the engagement shall be documented.

If the individual is still not satisfied with the matter's resolution and no further recourse is available within the firm, the individual will need to consider the matter's significance, along with his or her professional responsibilities and position or continuing employment with the firm.

Disputes or differences of opinion shall be documented in the same way as consultations for any matter involving an engagement. In all instances, the engagement report will not be dated until the matter is resolved.

The written partnership agreement shall set out dispute resolution and partnership dissolution policies to follow when disagreement proves too difficult to settle amicably.

5.4 Engagement Quality Control Review (EQCR)

All engagements must be assessed against the firm's established criteria (see below) to determine whether an EQCR shall be performed. This assessment should be made, in the case of a new client relationship, before the engagement is accepted, and in the case of a continuing client, during the planning phase of the engagement.

Firm policy shall require the engagement partner to resolve issues raised by the QCR, to his or her satisfaction, before dating the engagement report.

An EQCR is required before dating any audit of the financial statements of listed entities. In any other circumstances where an EQCR is conducted, the engagement report shall not be dated until completion of the EQCR.

Examples of criteria where the firm may wish to require an EQCR:

- It is part of a set of safeguards applied where the engagement partner has a significant and recurring independence threat resulting from a prolonged close personal relationship or close business relationship with the client, which had been previously reduced to an acceptable level;
- An identified threat to independence involving the engagement partner is recurring and deemed significant but use of an EQCR may reasonably reduce these threats to an acceptable level;
- The engagement's subject matter relates to organizations that are important to specific communities or the general public;
- A large number of passive shareholders, equivalent-ownership unit holders, partners, co-venturers, beneficiaries, or other similar parties receive and rely on the engagement report;
- There is significant risk identified and associated with the decision to accept or continue the engagement;
- There are questions about an entity's ability to continue as a going concern, and the potential impact to third-party users (other than management) is significant;
- Substantial impacts and risks to users involve new and very complex specialized transactions, such as derivatives and hedges, stock-based compensation, unusual financial instruments, extensive use of management estimates, and judgments that potentially have significant impact to third-party users;
- The entity is a large private entity (or related group under the responsibility of the same engagement partner); and
- The total fees paid by the client represent a large proportion to either an individual partner or of the firm's annual gross revenue (for example, greater than 10–15%).

Additionally, there may be factors which trigger an engagement quality control review after an engagement has already commenced. These may include situations where:

- The risk of the engagement has increased during the engagement, for example, where the client becomes the focus of a takeover;
- There is concern among engagement team members that the report may not be appropriate in the circumstances;
- New and significant users of the financial statements are identified;
- The client is subject to significant litigation which was not present during the engagement acceptance process;
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement are a concern;
- There have been disagreements with management on significant accounting matters or audit scope limitations; and
- There have been scope limitations.

Provide listing of other required criteria as determined by firm policy. Each firm shall determine its own EQCR criteria. For guidance, refer to Section 5.6 of the Guide.

5.4.1 Nature, Timing, and Extent of an Engagement Quality Control Review

The decision to conduct an EQCR, even if the engagement meets the criteria, and the extent of the EQCR, will depend on the engagement's complexity and associated risks. An EQCR will not diminish the engagement partner's responsibility for the engagement.

The EQCR shall include, as a minimum:

- Discussion of significant matters with the engagement partner;
- Review of the financial statements or other subject matter information and the proposed report;
- Review of selected working paper file documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.

The QCR shall use a standardized engagement quality control checklist in order to complete the review and provide appropriate documentation of such review.

For listed entities (and other organizations if included in the firm's policy), the EQCR must also consider:

- The engagement team's evaluation of the firm's independence in relation to the specific engagement;
- 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
- Whether documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

The QCR shall be involved early in the engagement process to allow for timely review on any significant issues that arise during the engagement. Consideration will be given to performing parts of the review as the engagement progresses. In all cases, the QCR shall only review work that has already been reviewed by the engagement partner.

The engagement partner should allow a minimum of ***[insert number of days pursuant to firm policy]*** business days from the release date for the EQCR, with two of those days allocated for clearance of the review and completion. The time allowed for larger, more complex engagements must naturally be substantially longer.

The engagement report shall not be dated until the completion of the engagement quality control review.

5.4.2 Engagement Quality Control Reviewer (QCR)

The firm is responsible for establishing criteria for the appointment of QCRs and determining their eligibility.

The firm has appointed the MP to carry out these responsibilities, including designating partners and staff the responsibility for EQCR and determining the engagements to which they can be assigned.

The QCR must be objective, independent, and have sufficient training, experience, technical expertise,

and authority, as well as the ability and time to fulfill this role. The characteristics commonly attributed to a candidate suitable to serve in this role include superior technical knowledge of current accounting and assurance standards and a breadth of experience which would be exhibited at a senior level.

The QCR cannot be a member of the engagement team and cannot, directly or indirectly, review his or her own work, or make important decisions regarding the performance of the engagement.

Consultation among qualified professionals who serve the EQCR function is encouraged, and it is not unusual for the engagement team to consult with the QCR during the engagement. This will not normally compromise the QCR's objectivity, as long as the engagement partner (and not the QCR) makes the final decisions and the issue is not overly significant. This process can avoid differences of opinion later in the engagement.

If the objectivity of the QCR becomes compromised following a consultation on a specific matter, the firm should appoint an alternate QCR.

6. Monitoring

The quality control policies and procedures are a key part of the firm's internal control system. While partners and staff at all levels should continually strive to meet quality, ethics, and professional and firm standards, those who are in a position to make decisions or oversee the work of others have a greater level of responsibility for day to day monitoring and enforcement of the quality control policies and procedures.

Over and above that, monitoring is a distinct component of the quality control system. It consists primarily of understanding the quality control system and determining — through interviews, walk-through tests, and inspections of engagement files and other documentation relevant to the operation of the quality control system (for example, training and continuing professional development records and independence confirmations) — whether, and to what extent, the system is designed and operating effectively. It also includes developing recommendations to improve the system, especially if weaknesses are detected or if professional standards and practices have changed.

The firm must be mindful of the need to inspect the quality control system for continuing effectiveness in light of recent developments and to test controls periodically through formal monitoring at the engagement file level to ensure the controls are working effectively and are not being deliberately circumvented or applied with less rigour than intended.

The firm will also consider any feedback received from the ***[insert name of relevant professional association or institute]'s*** practice inspection and licensing regime. However, this is not a substitute for the firm's own internal monitoring program.

The firm shall designate responsibility for the monitoring process to a partner or partners or other persons with sufficient experience and authority ("the monitor"). The firm may either set up an internal monitoring system or contract with a suitable independent party; the decision will be dependent upon the firm's resource levels at the time of the inspection and its ability to conduct the program effectively. This determination will be made at each inspection cycle by the MP, through consultation with all partners.

6.1 Monitoring Program

The responsibility for monitoring the application of quality control policies and procedures is separate from the overall responsibility for quality control.

The quality control system has been designed to provide the firm with reasonable assurance that significant and sustained breaches of policy and quality control are unlikely to occur or go undetected. The purpose of the monitoring program is to assist the firm in obtaining reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. The program shall also help ensure compliance with practice and regulatory review requirements.

All partners and staff must co-operate with the monitor, recognizing that this individual is an essential part of the quality control system. Support of the partners and managers of the process and to reinforce the monitor's comments and findings is of particular importance. Disagreement, non-compliance with, or disregard for the monitor's findings shall be resolved through the firm's dispute resolution process (see section 5.3 of this manual).

6.2 Inspection Procedures

Monitoring of the firm's quality control system will be completed on a periodic basis. As part of the monitoring program, the firm shall inspect a selection of individual engagements, which may be chosen without prior notification to the engagement team. Although it is desirable to select one or more completed and released engagement for each engagement partner at each inspection, the firm may instead choose to ensure that each partner's files are selected on at least a cyclical basis (normally no less frequently than every three years). Those involved in the engagement team or as QCR on a particular engagement are not eligible to act as a monitor on the same file.

The monitor will consider the results of previous monitoring, the nature and extent of authority given to individual partners and staff, the nature and complexity of the firm's practice, and the specific risks associated with the firm's client when designing the inspection.

The firm will instruct the monitor to prepare appropriate documentation of inspections that will include:

- The results from evaluating elements of the quality control system;
- An evaluation of whether the firm has appropriately applied quality control policies and procedures;
- An evaluation of adherence to professional standards and applicable regulatory and legal requirements;
- An evaluation of whether the engagement report is appropriate in the circumstances;
- Identification of any deficiencies, the underlying reasons why they arose, their effect, and a decision on whether further action is necessary, describing this action in detail; and
- A summary of results and conclusions reached (provided to the firm), with recommendations for corrective actions or changes needed.

The engagement partners (along with other appropriate personnel) will meet to review the report and decide on the corrective action and/or changes to make to the system, roles and responsibilities, disciplinary action, recognition, and other matters as determined.

All partners and staff will be provided with information on the monitoring process's results annually, including a detailed description of the monitoring process and its conclusions on the firm's overall compliance and effectiveness.

6.3 Evaluating, Communicating, and Remedying Deficiencies

The firm shall consider whether the identified deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by a particular partner or staff member. The firm shall also communicate all deficiencies detected and reported by the monitor to the relevant engagement partners and other appropriate personnel, together with recommendations for remedial action.

Recommendations to address reported deficiencies shall focus on addressing the underlying reasons for those deficiencies and shall include one or more of the following:

- Take appropriate remedial action in relation to the individual engagement or member(s) of personnel (for example, as set out in section 6.4.1 below);
- Communicate the findings to the HR;

- Amend the quality control policies and procedures; and
- Take disciplinary action in line with section 4.4 of this manual.

If it appears that the firm has issued an inappropriate engagement report or that the engagement report's subject matter contained a misstatement or inaccuracy, the firm shall determine what further actions are appropriate in order to comply with professional standards and regulatory and legal requirements. In such a circumstance, the firm will also consider obtaining legal advice.

If deficiencies are determined to be systemic or repetitive, immediate corrective action will be taken. In most cases, deficiencies related to independence and conflict of interest will require immediate corrective action.

6.4 Report on the Results of Monitoring

After completing the annual assessment of the quality control system, the monitor must report the results to the MP, engagement partners, and other appropriate personnel. The report must be sufficient to enable the firm and these personnel to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. The report must also include a detailed description of the procedures performed and the conclusions drawn from the review. If systemic, repetitive, or significant deficiencies are noted, the report must also include the actions taken, or proposed, to resolve them.

The monitor's report will, at a minimum, include:

- A description of the monitoring procedures performed;
- The conclusions drawn from the monitoring procedures; and
- Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken, together with any further recommended actions, to resolve these deficiencies.

Insert sample of firm Monitor's Report.

6.4.1 Non-compliance

Non-compliance with the firm's quality control system is a serious matter, particularly if a partner or staff member has willfully refused to comply with firm policy.

Since the quality control system is in place to protect the public interest, the firm will address willful non-compliance transparently and rigorously. Willful non-compliance will be addressed in a number of ways, including instituting a plan to improve performance; performance reviews and reconsideration of opportunities for promotion and increased compensation; and ultimately termination of employment.

In some circumstances, it may be necessary to impose a temporary oversight regime for partners and staff who have difficulty complying with the quality control system. This may include requiring a review of the work performed by another partner, or having the monitor assess the work before release of the engagement report. Alternatively, the firm may restrict the type of work performed, for example, by restricting involvement in engagements of larger entities, on either a temporary or a permanent basis.

6.5 Complaints and Allegations

The firm recognizes the authority of the MP to handle all matters concerning complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements, and allegations of non-compliance with the firm's quality control system.

Complaints and allegations — particularly concerning failure to exercise a duty of care in relation to client work, or other breach of professional or legal duties by partners and staff toward each other or clients — are serious matters. The MP shall give serious consideration to notifying the firm's professional liability insurance company and/or seeking legal advice. If there is any uncertainty, he or she shall consult other partners, or other trusted professional colleagues.

Any complaint received from a client or other third party will be responded to at the earliest practical moment, with an acknowledgement that the matter is being attended to, and that a response will be forthcoming after it has been appropriately investigated.

The firm maintains a defined policy with accompanying procedures that details the process to be followed in a complaint or allegation arises.

The investigation of such matters will be assigned to the MP and may be delegated to competent, experienced partners or staff who are not involved in the allegation or complaint.

The process provides that all partners and staff are free to raise concerns without fear of reprisal.

> Insert additional firm policy or procedures that may describe the process to be followed in such a circumstance. For guidance, refer to Section 6.6 of the Guide.

If the investigation reveals 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 one or more individuals, the firm shall take appropriate action including one or more of the following:

- Take appropriate remedial action in relation to the individual engagement or member(s) of personnel (for example, as set out in section 6.4.1 above);
- Communicate the findings to the HR;
- Amend the quality control policies and procedures; and
- Take disciplinary action in line with section 4.4 of this manual.

7. Documentation

7.1 Documentation of the Firm's Policies and Procedures

The firm maintains policies and procedures that specify the level and extent of documentation required in all engagements and for general firm use (as established in the firm manual/engagement templates). It also maintains policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control 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.

These policies ensure that documentation is sufficient and appropriate to provide evidence of:

- Adherence to each element of the firm's quality control system; and
- Support for each engagement report issued, according to professional and firm standards and regulatory and legal requirements, together with evidence that the EQCR has been completed on or before the date of the report (if applicable).

7.2 Documentation of the Engagement

It is the firm's policy that engagement documentation shall include:

- Engagement planning checklist or memorandum;
- Identified issues with respect to ethics requirements (including demonstration of compliance);
- Compliance with independence requirements and documentation of any discussions related to these issues;
- Conclusions reached with respect to acceptance and continuance of client relationship;
- Procedures performed to assess the risk of material misstatement due to fraud or error at the financial statement and assertion level;
- Nature, timing, and extent of procedures performed in response to assessed risk including results and conclusions;
- Nature, scope, and conclusions drawn from consultations;
- All communications issued and received;
- Results of the EQCR which has been completed on or before the date of the report;
- Confirmation that no unresolved matters exist that would cause the reviewer to believe that the significant judgments made and conclusions drawn were not appropriate;
- Conclusion that sufficient, appropriate audit evidence has been accumulated and evaluated, and supports the report to be issued; and
- File closing, including appropriate sign-off.

> Insert additional minimum engagement documentation requirements as desired. For guidance, refer to Section 7.3 of the Guide.

Firm policy requires that final assembly of the engagement file be completed within ***[state number of days, ordinarily not more than 60 days after the date of the audit report]***. If there are two or more reports issued

for the same subject matter information, firm policy should indicate that the time limits for assembly of the engagement file should be such that each report is treated as if it were a separate engagement.

Engagement documentation of any kind must be retained for a period of no less than ***[state period of retention, normally not shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report]*** to allow those performing monitoring procedures to evaluate the extent of the firm's compliance with its internal control system, as well as the needs of the firm, as required by professional standards, law, or regulations.

7.3 Documentation of the Engagement Quality Control Review

Every partner or staff member serving in the capacity of QCR must complete the firm's standardized EQCR checklist, in order to provide documentation that the review was performed. This must include confirmation and supporting evidence or cross-references to it, affirming that:

- Appropriately qualified partners and staff have performed the procedures required for an EQCR;
- The review was completed on or before the date of the engagement report;
- No unresolved matters have come to the QCR's attention that would cause him or her to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.

7.4 File Access and Retention

The firm has established policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the engagement documentation.

These policies include consideration of various retention requirements under statute and regulations to ensure that engagement documentation is retained for a period sufficient to meet the needs of the firm.

All working papers, reports, and other documents prepared by the firm, including client-prepared worksheets, are confidential and shall be protected from unauthorized access.

An engagement partner or MP must approve all external requests to review working papers and any release of the documents will not be completed until this approval is obtained.

Working papers will not be made available to third parties unless:

- The client has authorized disclosure in writing;
- There is a professional duty to disclose the information;
- Disclosure is required by a legal or judicial process; or
- Disclosure is required by law or regulation.

Unless prohibited by law, the firm must inform and obtain written authorization from the client before making working papers available for review. An authorization letter must be obtained when there is a request to review files from a prospective purchaser, investor, or lender. Legal advice shall be sought if the client does not authorize any necessary disclosure of information.

In the event of litigation or potential litigation, or regulatory or administrative proceedings, working papers shall not be provided without obtaining consent from the firm's legal counsel.

The firm's policy dictates the number of years for which retention will apply for each of the following types of files:

Permanent files	***[number of years]***
Tax files	***[number of years]***
Financial statements and reports	***[number of years]***
Annual or periodic working papers	***[number of years]***
Correspondence	***[number of years]***

The minimum retention period for former client working papers and files shall be ***[number of years]***.

An accessible, permanent record of all files stored off-site will be maintained, and each storage container will be appropriately labelled for easy identification and retrieval. The partner responsible for office administration shall approve any destruction of files and keep permanent records of all materials destroyed.

7.5 Complaints and Allegations

Complaints and allegations against the firm shall be documented, together with the firm's response.

Appendix: Mapping of ISQC 1 to the Quality Control Manual

The following table shows the correlation between ISQC 1 and the corresponding section and paragraph (shown in parentheses) of the Quality Control Manual.

ISQC 1 Paragraph	QC Manual Section (paragraph)
1–10	Not considered necessary [2]
11	General Policy Statement (1)
12	Cover sheet (shaded box)
13-17	Not considered necessary [3]
18	1.1 (2, 4)
19	1.1 (5)
20	2
21	2.1
22	2.1.2 and 2.1.1 (3, 5)
23	2.1.2 (4 to end)
24	2.1.2 (3)
25	2.1.3 and 2.1.4
26	3.1
27	3.1.1 - 3.1.3
28	3.1.3 (3) and 3.2
29	4
30	4.3
31	4.3 (1)
32	5
33	5 (5)
34	5.2
35	5.4
36	5.4.1
37	5.4.1 (2)
38	5.4.1 (4)
39	5.4.2
40	5.4.2
41	5.4.2
42	7.3
43	5.3
44	5.3 (11)
45	7.2 (2)
46	7.4
47	7.4
48	6 (2, 5), 6.1 (2) and 6.2 (1)
49	6.3 (1)
50	6.3 (1)
51	6.3 (2)
52	6.3 (3)
53	6.4
54	Not considered necessary [4]
55	6.5
56	6.5 (7)
57	7.1
58	7.1
59	7.5

2 These paragraphs introduce the scope, authority and effective date of the standard.
3 These paragraphs are implicit in the existence and content of the Manual.
4 This paragraph applies to network firms only.

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