



## Exposure Draft of Proposed Standard: APES 320 Quality Control for Firms

Prepared and issued by **Accounting Professional & Ethical Standards Board Limited**

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**Text in blue** – changes as per new ISQC 1  
**Text highlighted in yellow** – Australian insertions

**Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by **27<sup>th</sup> March 2009**.

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A copy of all submissions will be placed on public record on the APESB website: [www.apesb.org.au](http://www.apesb.org.au).

**Obtaining a copy of this Exposure Draft**

This Exposure Draft is available on the APESB website: [www.apesb.org.au](http://www.apesb.org.au). Alternatively, any individual or organisation may obtain one printed copy of this exposure draft without charge until **27<sup>th</sup> March 2009** by contacting:

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## **Reasons for issuing Exposure Draft 01/09**

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to issue the Standard APES 320 *Quality Control for Firms* setting out mandatory requirements and guidance for Members in Public Practice. The proposed standard will replace the existing APES 320 issued in June 2006 and incorporates the new *ISQC 1* issued in December 2008.

## **Key requirements and guidance in ED 01/09**

The proposed APES 320 includes mandatory requirements and guidance in respect to systems of quality control of Firms such as:

- Objective;
- Applying, and complying with, relevant requirements;
- Elements of a system of quality control ;
- Leadership responsibilities for quality within the Firm;
- Relevant Ethical Requirements;
- Acceptance and continuance of Client relationships and specific Engagements;
- Human resources;
- Engagement performance;
- Monitoring; and
- Documentation of the system of quality control.

## **Proposed operative date**

It is intended that this Standard will be operative for Members in Public Practice from 1 January 2010.

## **Request for comments**

Comments are invited on this Exposure Draft of APES 320 *Quality Control for Firms* by **27<sup>th</sup> March 2009**. APESB would prefer that respondents express a clear overall opinion on whether the proposed Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Standard.

## **Request for specific comments**

**APES 320 follows the existing *ISQC 1* format of specifying the mandatory requirements which is immediately followed by the relevant application guidance. The new *ISQC 1* issued in December 2008 and effective from 15 December 2009 initially presents all the requirements and the application guidance at the back of the Standard.**

**The preliminary view of the APESB is that by separately presenting the requirements and then the application guidance (as in the new *ISQC 1*) would not further improve the clarity of the Standard. APESB believes that it is more useful to have the application guidance immediately following the requirements it relates to, as it then facilitates the use of the Standard by members, firms, professional bodies and others. Do you agree? If you do not, please provide an explanation or an example of a separate presentation that you recommend.**



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## **APES 320 Quality Control for Firms**

APES 320 *Quality Control for Firms* is based on *International Standard on Quality Control (ISQC 1)* (as published in the *Handbook of International Auditing, Assurance, and Ethics pronouncements*) of the International Auditing and Assurance Standards Board, published by the International Federation of Accountants (IFAC) and is used with permission of IFAC.

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# APES 320 QUALITY CONTROL FOR FIRMS

(Effective as at 1 January 2010)

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*Conformity with International Pronouncements*

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## PREFACE (AUST)

In this Standard, Firms that have an Assurance Practice are required to apply the whole of APES 320 as applicable to their Assurance Practice or Engagements. Firms that do not have an Assurance Practice, or the non-assurance parts of Firms with an Assurance Practice, are required to apply all paragraphs of APES 320 where applicable other than those boxed and designated 'Assurance Practices only'. The application requirements are summarised in the flow chart in the Appendix to the Standard.

Non-compliance can lead to disciplinary proceedings by the Professional Body to which the Member belongs.

The Auditing and Assurance Standards Board (AUASB) has issued revised auditing standards as legislative instruments under the *Corporations Act 2001*, effective for financial reporting periods commencing on or after 1 July 2006. For Corporations Act audits and reviews, those standards will have the force of law. To the extent that those force of law auditing standards make reference to the quality control requirements for firms issued by a Professional Body, the requirements of APES 320 have the same level of legal enforceability as the explanatory guidance in which such reference is included in respect of Corporations Act audits and reviews. This is so because of the linkages with Auditing Standards ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* and ASA 220 *Quality Control for Audits of Historical Financial Information*.

## 1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 320 *Quality Control for Firms (the Standard)*, which is effective from 01 January 2010. Earlier adoption of this Standard is permitted.
- 1.2 APES 320 sets the standards for Members in Public Practice and Firms to establish and maintain a system of quality control at the Firm level in the provision of quality and ethical Professional Services. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanation in grey type. APES 320 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**
- 1.4 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 320 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.5 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.8 In applying the requirements outlined in APES 320, Members in Public Practice should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.9 Firm Personnel may be required to comply with additional standards and guidance regarding quality control procedures at the Engagement level. For example, in respect of Assurance Engagements the Auditing and Assurance Standards Board's (AUASB) Auditing Standard ASA 220 *Quality Control for Audits of Historical Financial Information*, establishes standards and provides guidance on quality control procedures for audits of financial statements at the Engagement level.

## 2. Definitions

For the purpose of this Standard:

- (a) **Date of Report** means the date selected by the Member in Public Practice to date the report;
- (b) **Engagement Documentation** means the record of work performed, results obtained, and conclusions the Member in Public Practice reached (terms such as “working papers” or “workpapers” are sometimes used);
- (c) **Engagement Partner** means 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;
- (d) **Engagement Quality Control Review** means a process designed to provide an objective evaluation, on or before the Date of 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;

- (e) **Engagement Quality Control Reviewer** means a Partner, other person in the Assurance Practice, 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 it reached in formulating the report;
- (f) **Engagement Team** means all Personnel performing the 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 Network Firm;
- (g) **Firm** means:
- A sole practitioner, partnership, corporation or other entity of professional accountants;
  - An entity that controls such parties;
  - An entity controlled by such parties; or
  - An Auditor-General's office or department
- (h) **Inspection** means in relation to completed Engagements, procedures designed to provide evidence of compliance by Engagement Teams with the Firm's quality control policies and procedures;
- (i) **Key Audit Partner** means 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.
- (j) **Listed Entity** means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body;
- (k) **Monitoring** means 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;
- (l) **Network Firm or Network Assurance Practice** means a Firm or entity that belongs to a Network.
- (m) **Network** means a larger structure:
- (i) that is aimed at cooperation; and
  - (ii) that is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources;
- (n) **Partner** means any individual with authority to bind the Firm with respect to the performance of a professional services Engagement;
- (o) **Personnel** means Partners and Staff;
- (p) **Professional Standards** means all standards issued by the Accounting Professional & Ethical Standards Board and all professional and ethical requirements of the applicable professional body;
- (q) **Reasonable Assurance** means in the context of this Standard, a high, but not absolute, level of assurance;
- (r) **Relevant Ethical Requirements** means ethical requirements to which the Engagement Team and Engagement Quality Control Reviewer are subject to, which ordinarily comprise Parts A and B of the Code.
- (s) **Staff** means professionals, other than Partners, including any experts the Firm employs; and
- (t) **Suitably Qualified External Person** means an individual outside the Firm with the competence and capabilities to act as an Engagement Partner, for example a Partner of another Assurance Practice, 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 organisation that provides relevant quality control services.

## AUST 2.1

For the purpose of this Standard:

- (a) **Assurance Engagement** means an Engagement in which a conclusion is expressed by a Member in Public Practice 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.
- This includes an Engagement in accordance with *Framework for Assurance Engagements* issued by Auditing and Assurance Standards Board (AUASB) or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements;
- (b) **Assurance Practice** means the assurance division or section of a Firm, encompassing every Assurance Engagement conducted by the Firm, whether or not required to be conducted by a Registered Company Auditor and whether or not conducted by an individual auditor, an audit Firm or an audit company.
- (c) **Client** means an individual, Firm, entity or organization to whom or to which professional services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.
- (d) **Code** means APES 110 *Code of Ethics for Professional Accountants*.
- (e) **Engagement** means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of professional services by a Member in Public Practice. However, consultations with a prospective Client prior to such an agreement are not part of an Engagement.
- (f) **Independence** means:
- 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 exercise objectivity and professional skepticism; and
  - Independence in appearance – the avoidance of facts and circumstances that are so significant 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 Engagement Team's, integrity, objectivity or professional skepticism had been compromised.
- (g) **Professional Body(ies)** means the Institute of Chartered Accountants in Australia, CPA Australia and the National Institute of Accountants.
- (h) **Professional Services** means services requiring accountancy or related skills performed by a Member in Public Practice including accounting, auditing, taxation, management consulting and financial management services.
- (i) **Member** means a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body.
- (j) **Member in Public Practice** means a Member, irrespective of functional classification (e.g. audit, tax, or consulting) in a Firm that provides Professional Services. The term is also used to refer to a Firm of Members in Public Practice and means a practice entity as defined by the applicable professional body.

## Objective

3. The Firm shall establish and maintain a system of quality control designed to provide it with Reasonable Assurance that the Firm and its Personnel comply with Professional Standards and regulatory and legal requirements and that reports issued by the Firm or Engagement Partners are appropriate in the circumstances.
4. A system of quality control consists of policies designed to achieve the objectives set out in paragraph 3 and the procedures necessary to implement and monitor compliance with those policies.
5. The nature and extent of the policies and procedures developed by an individual Firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the Firm, and whether it is part of a Network.

**AUST 5.1** The policies and procedures developed by an individual Firm need not be complex or time-consuming to be effective. This Standard describes responsibilities for several different roles and functions within the Firm, including overall quality control and Monitoring. For a small Firm, it may be necessary for one person to perform more than one of these functions. In some circumstances, it may be appropriate to use the services of a Suitably Qualified External Person. When a Firm decides to use such a person, care would be taken to establish the legal responsibilities of the parties and to safeguard Client confidentiality.

## Applying, and complying with, relevant requirements

6. Personnel within the Firm responsible for establishing and maintaining the Firm's system of quality control shall have an understanding of the entire text of this Standard, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
7. The Firm shall comply with each requirement of this Standard unless, in the circumstances of the Firm, the requirement is not relevant to the Professional Services provided by the Firm.
8. This Standard does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no Staff. Requirements in this Standard such as those for policies and procedures for the assignment of appropriate Personnel to the Engagement Team (see paragraph 56), for review responsibilities (see paragraph 63), and for annual communication of the results of Monitoring to Engagement Partners within the Firm (see paragraph 117), are not relevant in the absence of Staff.
9. The requirements are designed to enable the Firm to achieve the objective stated in this Standard. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the Firm shall consider whether there are particular matters or circumstances that require the Firm to establish policies and procedures in addition to those required by this Standard to meet the stated objective.

## Elements of a system of quality control

10. 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.
11. The Firm shall document its policies and procedures and communicate them to the Firm's Personnel.
12. In general, communication of quality control policies and procedures to Firm Personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging Firm Personnel to communicate their views or concerns on quality control matters recognises the importance of obtaining feedback on the Firm's system of quality control.

### Considerations specific to smaller Firms

13. Documentation and communication of policies and procedures for smaller Firms may be less formal and extensive than for larger Firms.

## Leadership responsibilities for quality within the Firm

14. **The Firm shall establish policies and procedures designed to promote an internal culture recognising 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.**
15. The Firm's leadership and the examples it sets significantly influence the internal culture of the Firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the Firm's management that emphasise the Firm's quality control policies and procedures, and the requirement to:
  - (a) Perform work that complies with Professional Standards and regulatory and legal requirements; and
  - (b) Issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the Firm's internal documentation and training materials, and in Partner and Staff appraisal procedures such that they will support and reinforce the Firm's view on the importance of quality and how, practically, it is to be achieved.

16. Of particular importance in promoting an internal culture based on quality is the need for the Firm's leadership to recognise that the Firm's business strategy is subject to the overriding requirement for the Firm to achieve quality in all the Engagements that the Firm performs. Promoting such an internal culture includes:
  - (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its Personnel, in order to demonstrate the Firm's overriding commitment to quality;
  - (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
  - (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures.
17. **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.**
18. Sufficient and appropriate experience and ability enables the responsible person or persons responsible for the Firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

## Relevant Ethical Requirements

19. **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.**
20. Ethical requirements are contained in the Professional Standards. The Code establishes the fundamental principles of professional ethics, which include:
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.
21. Part B of the Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.

22. The fundamental principles are reinforced in particular by:
- The leadership of the Firm;
  - Education and training;
  - Monitoring; and
  - A process for dealing with non-compliance.
23. In complying with the requirements in paragraphs 19, 24–26, 29 and 31, the definitions of “Firm”, “Network” and “Network Firms” used in the Relevant Ethical Requirements apply in so far as is necessary to interpret those ethical requirements.

### Independence

24. The Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that the Firm, its Personnel and, where applicable, others subject to Independence requirements (including Network Firm Personnel) maintain Independence where required by Relevant Ethical Requirements. Such policies and procedures shall enable the Firm to:
- (a) Communicate its Independence requirements to its Personnel and, where applicable, others subject to them; and
  - (b) Identify and evaluate circumstances and relationships that create threats to Independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the Engagement, where withdrawal is permitted by law or regulation.

### Assurance Practices only

25. A Firm shall establish policies and procedures that require:
- (a) Engagement Partners to provide the Assurance Practice with relevant information about Client Engagements, including the scope of services, to enable the Assurance Practice to evaluate the overall impact, if any, on Independence requirements;
  - (b) Personnel to promptly notify the Assurance Practice 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 Assurance Practice and its Personnel can readily determine whether they satisfy Independence requirements;
    - (ii) The Assurance Practice can maintain and update its records relating to Independence; and
    - (iii) The Assurance Practice can take appropriate action regarding identified threats to Independence that are not at an acceptable level.
26. The Assurance Practice shall establish policies and procedures designed to provide it with Reasonable Assurance that it is notified of breaches of Independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:
- (a) Personnel to promptly notify the Assurance Practice of Independence breaches of which they become aware;
  - (b) The Assurance Practice to promptly communicate identified breaches of these policies and procedures to:
    - (i) The Engagement Partner who, with the Assurance Practice, needs to address the breach; and
    - (ii) Other relevant Personnel in the Assurance Practice and, where appropriate, the Network, and those subject to the Independence requirements who need to take appropriate action; and
  - (c) Prompt communication to the Assurance Practice, if necessary, by the Engagement Partner and the other individuals referred to in subparagraph (b)(ii) of the actions

taken to resolve the matter, so that the Assurance Practice can determine whether it should take further action.

27. Comprehensive guidance on threats to Independence and safeguards, including application to specific situations, is set out in the Code. The Code also requires threats to Independence that are not clearly insignificant to be documented and include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
28. An Assurance Practice receiving notice of a breach of Independence policies and procedures promptly communicates relevant information to Engagement Partners, others in the Assurance Practice as appropriate and, where applicable, experts contracted by the Assurance Practice and Network Assurance Practice Personnel, for appropriate action. Appropriate action by the Assurance Practice and the relevant Engagement Partner includes applying appropriate safeguards to eliminate the threats to Independence or to reduce them to an acceptable level, or withdrawing from the Engagement. In addition, the Assurance Practice provides Independence education to Personnel who are required to be independent.
29. At least annually, the Assurance Practice shall obtain written confirmation of compliance with its policies and procedures on Independence from all Assurance Practice Personnel required to be independent by Relevant Ethical Requirements.
30. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the Assurance Practice demonstrates the importance that it attaches to Independence and makes the issue current for, and visible to, its Personnel.
31. The Assurance Practice shall establish policies and procedures:
- 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
  - 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.
32. The Code discusses the familiarity threat that may be created by using the same senior Personnel on an Assurance Engagement over a long period of time and the safeguards that might be appropriate to address such threats.
33. Determining appropriate criteria to address familiarity threat may include such matters as:
- the nature of the Engagement, including the extent to which it involves a matter of public interest; and
  - the length of service of the senior Personnel on the Engagement.
- Examples of safeguards include rotating the senior Personnel or requiring an Engagement Quality Control Review.
34. The Code recognises that the familiarity threat is particularly relevant in the context of financial statement audits of Listed Entities. For these audits, the Code requires the rotation of the Key Audit Partner after a pre-defined period, normally no more than five years, and provides related standards and guidance.

#### Considerations specific to public sector organisations

35. Statutory measures may provide safeguards for the Independence of public sector auditors. However, threats to Independence may still exist regardless of any statutory measures designed to protect it. Therefore, in establishing the policies and procedures required by paragraphs 19, 24–26, 29 and 31, the public sector auditor may have regard to the public sector mandate and address any threats to Independence in that context.

36. Listed entities as referred to in paragraphs 31 and 34 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when a Firm determines, based on its quality control policies and procedures, that a public sector entity is significant for the purposes of expanded quality control procedures.
37. In the public sector, legislation may establish the appointments and terms of office of the auditor with Engagement Partner responsibility. As a result, it may not be possible to comply strictly with the Engagement Partner rotation requirements envisaged for listed entities. Nonetheless, for public sector entities considered significant, as noted in paragraph 36, it may be in the public interest for public sector audit organizations to establish policies and procedures to promote compliance with the spirit of Engagement Partner responsibility.

### Acceptance and continuance of Client relationships and specific Engagements

38. **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, time and resources to do so;**
  - (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.**
39. Consideration of whether the Firm has the competence, capabilities and resources to undertake a new Engagement from a new or an existing Client involves reviewing the specific requirements of the Engagement and existing Partner and Staff profiles at all relevant levels, and including whether:
- Firm Personnel have knowledge of relevant industries or subject matters;
  - Firm Personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
  - The Firm has sufficient Personnel with the necessary capabilities and competence;
  - Experts are available, if needed;
  - Individuals meeting the criteria and eligibility requirements to perform Engagement Quality Control Review are available, where applicable; and
  - The Firm is able to complete the Engagement within the reporting deadline.
40. With regard to the integrity of a Client, matters to consider include, for example:
- The identity and business reputation of the Client's principal owners, key management, related parties and those charged with its governance;
  - The nature of the Client's operations, including its business practices;
  - Information concerning the attitude of the Client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment;
  - Whether the Client is aggressively concerned with maintaining the Firm's fees as low as possible;
  - Indications of an inappropriate limitation in the scope of work;
  - Indications that the Client might be involved in money laundering or other criminal activities;
  - The reasons for the proposed appointment of the Firm and non-reappointment of the previous Firm; and

- The identity and business reputation of related parties.

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

41. Sources of information on such matters obtained by the Firm may include the following:
- Communications with existing or previous providers of professional accountancy services to the Client in accordance with Relevant Ethical Requirements, and discussions with other third parties.
  - Inquiry of other Firm Personnel or third parties such as bankers, legal counsel and industry peers.
  - Background searches of relevant databases.
42. **The Firm shall establish policies and procedures that require:**
- 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.**
  - 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.**
  - 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.**
43. Deciding whether to continue a Client relationship includes consideration of significant matters that have arisen during the current or previous Engagements, and their implications for continuing the relationship. For example, a Client may have started to expand its business operations into an area where the Firm does not possess the necessary expertise.
44. **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:**
- 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**
  - The possibility of withdrawing from the Engagement or from both the Engagement and the Client relationship.**

45. Policies and procedures on withdrawal from an Engagement or from both the Engagement and the Client relationship address issues that include the following:
- Discussing with the appropriate level of the Client's management and those charged with its governance the appropriate action that the Firm might take based on the relevant facts and circumstances.
  - If the Firm determines that it is appropriate to withdraw, discussing with the appropriate level of the Client's management and those charged with its governance withdrawal from the Engagement or from both the Engagement and the Client relationship, and the reasons for the withdrawal.
  - Considering whether there is a professional, regulatory or legal requirement for the Firm to remain in place, or for the Firm to report the withdrawal from the Engagement, or from both the Engagement and the Client relationship, together with the reasons for the withdrawal, to regulatory authorities.
  - Documenting significant matters, consultations, conclusions and the basis for the conclusions.

#### Considerations specific to public sector audit organisations

46. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of Client relationships and specific Engagements as set out in paragraphs 38-45 may not be relevant. Nonetheless, establishing policies and procedures as described may provide valuable information to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

## Human resources

47. **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 regulatory and legal requirements; and**
  - (b) **enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.**
48. Personnel issues relevant to the Firm's policies and procedures related to human resources include, for example:
- Recruitment;
  - Performance evaluation;
  - Capabilities, including time to perform assignments;
  - Competence;
  - Career development;
  - Promotion;
  - Compensation; and
  - The estimation of Personnel needs.

Effective recruitment processes and procedures help the Firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the Firm's work and possess the appropriate characteristics to enable them to perform competently.

49. Competence can be developed through a variety of methods, including the following:
- Professional education.
  - Continuing professional development, including training.
  - Work experience.
  - Coaching by more experienced Staff, for example, other members of the Engagement Team.
  - Independence education for Personnel who are required to be independent.

50. The continuing competence of the Firm's Personnel depends to a significant extent on an appropriate level of continuing professional development so that Personnel maintain their knowledge and capabilities. **Effective** policies and procedures **emphasise** the need for continuing training for all levels of Firm Personnel, and provide the necessary training resources and assistance to enable Personnel to develop and maintain the required competence and capabilities.
51. The Firm may use a Suitably Qualified External Person, **for example**, when internal technical and training resources are unavailable.
52. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. **Steps a Firm may take in developing and maintaining competence and commitment to ethical principles include:**
- (a) **Making** Personnel aware of the Firm's expectations regarding performance and ethical principles;
  - (b) **Providing** Personnel with evaluation of, and counseling on, performance, progress and career development; and
  - (c) **Helping** Personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the Firm's policies and procedures may result in disciplinary action.

#### Considerations specific to smaller Firms

53. The size and circumstances of the Firm will influence the structure of the Firm's performance evaluation process. Smaller Firms, in particular, may employ less formal methods of evaluating the performance of their Personnel.

#### **Assignment of Engagement Teams**

54. **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.**
55. Policies and procedures **may** include systems to monitor the workload and availability of Engagement Partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.
56. **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 regulatory and legal requirements; and**
  - (b) enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.**
57. The Firm's **assignment of Engagement Teams and the determination of** the level of supervision required, include **for example, consideration of the Engagement Team's:**
- Understanding of, and practical experience with, Engagements of a similar nature and complexity through appropriate training and participation;
  - Understanding of Professional Standards and regulatory and legal requirements;
  - Technical knowledge **and expertise**, including knowledge of relevant information technology;
  - Knowledge of relevant industries in which the Clients operate;
  - Ability to apply professional judgment; and
  - An understanding of the Firm's quality control policies and procedures.

## Engagement performance

58. The Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that Engagements are performed in accordance with Professional Standards and regulatory and legal requirements, and that the Firm or the Engagement Partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:
- (a) Matters relevant to promoting consistency in the quality of Engagement performance;
  - (b) Supervision responsibilities; and
  - (c) Review responsibilities.
59. The Firm promotes consistency in the quality of Engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardised documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:
- How Engagement Teams are briefed on the Engagement to obtain an understanding of the objectives of their work;
  - Processes for complying with applicable Engagement standards;
  - Processes of Engagement supervision, Staff training and coaching;
  - Methods of reviewing the work performed, the significant judgments made and the form of report being issued;
  - Appropriate documentation of the work performed and of the timing and extent of the review; and
  - Processes to keep all policies and procedures current.
60. Appropriate teamwork and training assist less experienced members of the Engagement Team to clearly understand the objectives of the assigned work.
61. Engagement supervision includes the following:
- Tracking the progress of the Engagement;
  - Considering the competence and capabilities of individual members of the Engagement Team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the Engagement;
  - Addressing significant matters arising during the Engagement, considering their significance and modifying the planned approach appropriately; and
  - Identifying matters for consultation or consideration by more experienced Engagement Team members during the Engagement.
62. A review consists of consideration of whether:
- (a) The work has been performed in accordance with Professional Standards and regulatory and legal requirements;
  - (b) Significant matters have been raised for further consideration;
  - (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
  - (d) There is a need to revise the nature, timing and extent of work performed;
  - (e) The work performed supports the conclusions reached and is appropriately documented;
  - (f) The evidence obtained is sufficient and appropriate to support the report; and
  - (g) The objectives of the Engagement procedures have been achieved.
63. The Firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced Engagement Team members.

## Consultation

64. The Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that:
- Appropriate consultation takes place on difficult or contentious matters;
  - Sufficient resources are available to enable appropriate consultation to take place;
  - The nature and scope of, and conclusions arising from, such consultations are documented and agreed by both the individual seeking consultation and the individual consulted; and
  - Conclusions resulting from consultations are implemented.
65. Consultation includes discussion at the appropriate professional level, with individuals within or outside the Firm who have specialised expertise.
66. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the Firm. Consultation helps to promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the Firm's policies and procedures helps to promote a culture in which consultation is recognised as a strength and encourages Personnel to consult on difficult or contentious matters.
67. Effective consultation on significant technical, ethical and other matters within the Firm, or where applicable, outside the Firm can be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
  - Have appropriate knowledge, seniority and experience,
- and when conclusions resulting from consultations are appropriately documented and implemented.

### Considerations specific to smaller Firms

68. A Firm needing to consult externally, for example, a Firm without appropriate internal resources may take advantage of advisory services provided by:
- Other Firms;
  - Professional and regulatory bodies; or
  - Commercial organisations that provide relevant quality control services.
- Before contracting for such services, consideration of the competence and capabilities of the external provider helps the Firm to determine whether the external provider is suitably qualified for that purpose.

### **Assurance Practices only**

69. Documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted.

The documentation of consultations by the Firm in accordance with policies and procedures developed to comply with paragraph 64(c) and (d) above, is sufficiently complete and detailed to enable an understanding of:

- The issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

**Assurance Practices only****Engagement Quality Control Review**

70. The **Assurance Practice** 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
  - (c) Require an Engagement Quality Control Review for all Engagements, **if any**, meeting the criteria established in compliance with subparagraph **70(b)**.
71. Criteria **for** determining which Engagements other than audits of financial statements of Listed Entities are to be subject to an Engagement Quality Control Review **may** include, **for example**:
- The nature of the Engagement, including the extent to which it involves a matter of public interest;
  - The identification of unusual circumstances or risks in an Engagement or class of Engagements; and
  - Whether laws or regulations require an Engagement Quality Control Review.

**Nature, timing and extent of the Engagement Quality Control Review**

72. The **Assurance Practice** 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**.
73. The Assurance Practice 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 judgements the Engagement Team made and the conclusions it reached;
  - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.
74. The Engagement report is not dated until the completion of the Engagement Quality Control Review. However, documentation of the Engagement Quality Control Review may be completed after the Date of the Report.
75. Conducting the Engagement Quality Control Review in a timely manner at appropriate stages during the Engagement **allows** significant matters **to** be promptly resolved to the **Engagement Quality Control Reviewer's** satisfaction **on or** before the Date of **the** Report.
76. The extent of the **Engagement Quality Control Review** **may** depend, **among other things**, on the complexity of the Engagement, **whether the entity is a Listed Entity**, and the risk that the report might not be appropriate in the circumstances. The **performance of an Engagement Quality Control Review** does not reduce the responsibilities of the Engagement Partner.

77. 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 judgements made and supports the conclusions reached.

78. Other matters relevant to evaluating the significant judgements made by the Engagement Team that may be considered in an Engagement Quality Control Review of an audit of financial statements of a Listed Entity include:

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

These other matters, depending of the circumstances, may also be applicable for Engagement Quality Control Reviews for audits of financial statements of other entities as well as reviews of financial statements and other assurance and related services Engagements.

#### Considerations specific to public sector audit organisations

79. Although not referred to as Listed Entities, as described in paragraph 36, certain public sector entities may be of sufficient significance to warrant performance of an Engagement Quality Control Review.

#### **Criteria for the eligibility of Engagement Quality Control Reviewers**

80. The **Assurance Practice** 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
  - (b) The degree to which an Engagement Quality Control Reviewer can be consulted on the Engagement without compromising the reviewer's objectivity.
81. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the Engagement. For example, the Engagement Quality Control Reviewer for an audit of the financial statements of a Listed Entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit Engagement Partner on audits of financial statements of listed entities.
82. The Engagement Partner may consult the Engagement Quality Control Reviewer during the Engagement, for example, to establish that a judgment made by the Engagement Partner will be acceptable to the Engagement Quality Control Reviewer. Such consultation avoids identification of differences of opinion at a late stage of the Engagement and need not compromise the Engagement Quality Control Reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant the reviewer's objectivity may be compromised unless care is taken by both the Engagement Team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the **Assurance Practice** or a Suitably Qualified External Person may be appointed to take on the role of either the Engagement Quality Control Reviewer or the person to be consulted on the Engagement.

83. The Assurance Practice shall establish policies and procedures designed to maintain the objectivity of the Engagement Quality Control Reviewer.
84. The Assurance Practice is required to establish policies and procedures designed to maintain objectivity of the Engagement Quality Control Reviewer. Accordingly, such policies and procedures provide that the Engagement Quality Control Reviewer:
- Where practicable, is not selected by the Engagement Partner;
  - Does not otherwise participate in the Engagement during the period of review;
  - Does not make decisions for the Engagement Team; and
  - Is not subject to other considerations that would threaten the reviewer's objectivity.

#### Considerations specific to smaller Firms

85. It may not be practicable, in the case of Firms with few Partners, for the Engagement Partner not to be involved in selecting the Engagement Quality Control Reviewer. Suitably Qualified External Persons may be contracted where sole practitioners or small Assurance Practices identify Engagements requiring Engagement Quality Control Reviews. Alternatively, some sole practitioners or small Assurance Practices may wish to use other Assurance Practices to facilitate Engagement Quality Control Reviews. Where the Assurance Practice contracts Suitably Qualified External Persons, the Assurance Practice follows the requirements and guidance in paragraphs 80-83 and 87.

#### Considerations specific to public sector audit organisations

86. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other Suitably Qualified Person appointed on behalf of the Auditor General) may act in a role equivalent to that of Engagement Partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the Engagement Quality Control Reviewer includes consideration of the need for Independence from the audited entity and the ability of the Engagement Quality Control Reviewer to provide an objective evaluation.
87. The Assurance Practice's policies and procedures shall provide for the replacement of the Engagement Quality Control Reviewer where the reviewer's ability to perform an objective review may be impaired.

#### **Documentation of the Engagement Quality Control Review**

88. The Assurance Practice shall establish policies and procedures on documentation of the Engagement Quality Control Review which require documentation that:
- The procedures required by the Assurance Practice's policies on Engagement Quality Control Review have been performed;
  - The Engagement Quality Control Review has been completed on or before the Date of Report; and
  - 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.

#### **Differences of opinion**

89. The Assurance Practice 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.
90. Such policies and procedures shall require that:
- Conclusions reached be documented and implemented; and
  - The report not be dated until the matter is resolved.

91. **Effective** procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.
92. Procedures to resolve such differences **may include** consulting with another practitioner or **Assurance Practice**, or a professional or regulatory body.

### Engagement Documentation

#### *Completion of the assembly of final Engagement files*

- 93. 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 finalised.**
94. Law or regulation may prescribe the time limits by which the assembly of final Engagement files for specific types of Engagement **is to** be completed. Where no such time limits are prescribed in law or regulation, **paragraph 93 requires** the Firm to establish time limits that reflect the need to complete the assembly of final Engagement files on a timely basis. In the case of an audit, for example, such a time limit **would** ordinarily not **be** more than 60 days after the date of the auditor's report.
95. Where two or more different reports are issued in respect of the same subject matter information of an entity, the Firm's policies and procedures relating to time limits for the assembly of final Engagement files address each report as if it were for a separate Engagement. This may, for example, be the case when the Firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

#### *Confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation*

- 96. The Firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation.**
97. Relevant Ethical Requirements establish an obligation for the Firm's Personnel to observe at all times the confidentiality of information contained in Engagement Documentation, unless specific Client authority has been given to disclose information, or there is a legal duty to do so. Specific laws or regulations may impose additional obligations on the Firm's Personnel to maintain Client confidentiality, particularly where data of a personal nature are concerned.
98. Whether Engagement Documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the Firm's knowledge, or if it could be permanently lost or damaged. Accordingly, **controls that** the Firm designs and implements **to avoid unauthorised alteration or loss of Engagement Documentation may include those that:**
- Enable the determination of when and by whom Engagement Documentation was created, changed or reviewed;
  - Protect the integrity of the information at all stages of the Engagement, especially when the information is shared within the Engagement Team or transmitted to other parties via the Internet;
  - Prevent unauthorised changes to the Engagement Documentation; and
  - Allow access to the Engagement Documentation by the Engagement Team and other authorised parties as necessary to properly discharge their responsibilities.

99. Controls that the Firm designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation may include the following:
- The use of a password among Engagement Team members to restrict access to electronic Engagement Documentation to authorised users;
  - Appropriate back-up routines for electronic Engagement Documentation at appropriate stages during the Engagement;
  - Procedures for properly distributing Engagement Documentation to the team members at the start of Engagement, processing it during Engagement, and collating it at the end of Engagement;and
  - Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy Engagement Documentation.
100. For practical reasons, original paper documentation may be electronically scanned for inclusion in Engagement files. In such cases, the Firm's procedures [designed to maintain the integrity, accessibility, and retrievability of the documentation may include](#) requiring the Engagement Teams to:
- Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
  - Integrate the scanned copies into the Engagement files, including indexing and signing off on the scanned copies as necessary; and
  - Enable the scanned copies to be retrieved and printed as necessary.

[There may be legal, regulatory or other reasons for a Firm to retain original paper documentation that has been scanned.](#)

#### *Retention of Engagement Documentation*

101. **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.**
102. The needs of the Firm for retention of Engagement Documentation, and the period of such retention, will vary with the nature of the Engagement and the Firm's circumstances, for example, whether the Engagement Documentation is needed to provide a record of matters of continuing significance to future Engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of Engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.
103. In the specific case of audit Engagements, the retention period would ordinarily be no shorter than **seven** years from the date of the auditor's report, or, if later, the date of the group auditor's report.
104. Procedures that the Firm adopts for retention of Engagement Documentation include those that [enable the requirements of paragraph 101 to be met during the retention period, for example to:](#)
- Enable the retrieval of, and access to, the Engagement Documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time.
  - Provide, where necessary, a record of changes made to Engagement Documentation after the Engagement files have been completed.
  - Enable authorised external parties to access and review specific Engagement Documentation for quality control or other purposes.

*Ownership of Engagement Documentation*

105. Unless otherwise specified by law or regulation, Engagement Documentation is the property of the Firm. The Firm may, at its discretion, make portions of, or extracts from, Engagement Documentation available to Clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of Assurance Engagements, the Independence of the Firm or its Personnel.

**Monitoring***Monitoring the Firm's quality control policies and procedures*

106. 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.**
107. The purpose of Monitoring compliance with quality control policies and procedures is to provide an evaluation of:
- Adherence to Professional Standards and regulatory and legal requirements;
  - Whether the system of quality control has been appropriately designed and effectively implemented; and
  - Whether the Firm's quality control policies and procedures have been appropriately applied, so that **reports** that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
108. Ongoing consideration and evaluation of the system of quality control include matters such as the following:
- Analysis of:
    - New developments in Professional Standards and regulatory and legal requirements, and how they are reflected in the **Firm's** policies and procedures where appropriate;

**Assurance Practices only**

- Written confirmation of compliance with policies and procedures on Independence;
- Continuing professional development, including training; and
- Decisions related to acceptance and continuance of Client relationships and specific Engagements.
- Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the Firm's policies and procedures relating to education and training.
- Communication to appropriate Firm Personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
- Follow-up by appropriate Firm Personnel so that necessary modifications are promptly made to the quality control policies and procedures.

AUST109. An element of the ongoing Monitoring process is the Inspection of a selection of completed Engagements, ordinarily performed on a cyclical basis. In determining the scope of the Inspections, Firms may take into account quality reviews conducted by the professional bodies or regulator.

#### Assurance Practices only

Inspection cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the Inspection cycle is organised, including the timing of selection of individual Engagements, depends on many factors, such as the following:

- The size of the Assurance Practice.
- The number and geographical location of offices.
- The results of previous Monitoring procedures.
- The degree of authority both Personnel and offices have (for example, whether individual offices are authorised to conduct their own Inspections or whether only the head office may conduct them).
- The nature and complexity of the Assurance Practice's practice and organisation.
- The risks associated with the Assurance Practice's Clients and specific Engagements.

110. The Inspection process includes the selection of individual Engagements, some of which may be selected without prior notification to the Engagement Team. In determining the scope of the Inspections, the Assurance Practice may take into account the scope or conclusions of an independent external Inspection program such as conducted by the professional bodies or regulator. However, an independent external Inspection program does not act as a substitute for the Assurance Practice's own internal Monitoring program.

#### Considerations specific to smaller Firms

111. In the case of small Firms, Monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the Firm's quality control policies and procedures, or who may be involved in performing the Engagement Quality Control Review. A Firm with a limited number of persons may choose to use a Suitably Qualified External Person or another Assurance Practice to carry out Engagement Inspections and other Monitoring procedures. Alternatively, the Firm may establish arrangements to share resources with other appropriate organisations to facilitate Monitoring activities.

#### *Evaluating, communicating and remedying identified deficiencies*

112. The Assurance Practice shall evaluate the effect of deficiencies noted as a result of the Monitoring process and determine whether they are either:

- (a) Instances that do not necessarily indicate that the Assurance Practice's system of quality control is insufficient to provide it with Reasonable Assurance that it complies with Professional Standards and regulatory and legal requirements, and that the reports issued by the Assurance Practice or Engagement Partners are appropriate in the circumstances; or
- (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

113. The Assurance Practice 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.

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

115. 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 **Assurance Practice**, especially those who do so repeatedly.
116. **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 Assurance Practice** 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.
117. The **Assurance Practice** 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 **Assurance Practice**, including the **Assurance Practice's** chief executive officer or, if appropriate, its managing board of Partners. **This communication shall be sufficient to enable the Assurance Practice** and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following:
- (a) A description of the Monitoring procedures performed.
  - (b) The conclusions drawn from the Monitoring procedures.
  - (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.
118. Some **Assurance Practices** operate as part of a Network and, for consistency, may implement some of their Monitoring procedures on a Network basis. Where **Assurance Practices** within a Network operate under common Monitoring policies and procedures designed to comply with this Standard, and these **Assurance Practices** place reliance on such a Monitoring system, **the Assurance Practice'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 **Assurance Practices**;
  - (b) The Network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant Network **Assurance Practice** or **Assurance Practices** so that the necessary action can be taken,
- in order that Engagement Partners in the Network **Assurance Practices** can rely on the results of the Monitoring process implemented within the Network, unless the **Assurance Practices** or the Network advise otherwise.

#### Complaints and allegations

119. The Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that it deals appropriately with:
- (a) Complaints and allegations that the work performed by the Firm fails to comply with Professional Standards and regulatory and legal requirements; 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.

120. Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the Firm. They may be made by Firm Personnel, Clients or other third parties. They may be received by Engagement Team members or other Firm Personnel.

**Assurance Practice only**

121. Policies and procedures established for the investigation of complaints and allegations may include for example, that the Partner supervising the investigation:
- Has sufficient and appropriate experience;
  - Has authority within the Firm; and
  - Is otherwise not involved in the Engagement.
- The Partner supervising the investigation may involve legal counsel as necessary.

122. **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 out in paragraph 115.**

Considerations specific to smaller Firms

123. It may not be practicable, in the case of Firms with few Partners, for the Partner supervising the investigation not to be involved in the Engagement. These small Firms and sole practitioners may use the services of a Suitable Qualified External Person or another Firm to carry out the investigation into complaints and allegations.

## Documentation of the system of quality control

124. **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.**
125. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgment and depends on a number of factors, including the following:
- The size of the Firm and the number of offices.
  - The nature and complexity of the Firm's practice and organisation.
- For example, large Firms may use electronic databases to document matters such as Independence confirmations, performance evaluations and the results of Monitoring Inspections.
126. Appropriate documentation relating to Monitoring includes, for example:
- Monitoring procedures, including the procedure for selecting completed Engagements to be inspected.
  - A record of evaluation of:
    - Adherence to Professional Standards and regulatory and legal requirements;
    - Whether the system of quality control has been appropriately designed and effectively implemented; and
    - Whether the Firm's quality control principles and procedures have been appropriately applied, so that reports that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
  - Identification of the deficiencies noted an evaluation of their effect, and the basis for determining whether and what further action is necessary.

Considerations specific to smaller Firms

127. Smaller Firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.
128. **The Firm shall establish policies and procedures requiring appropriate 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.**
129. **The Firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.**

**Effective Date**

132. Systems of quality control in compliance with this Standard are required to be established by 1 January 2010. Firms should consider the appropriate transitional arrangements for Engagements in process at that date.

***Conformity with International Pronouncements******APES 320 and ISQC 1***

*APES 320 incorporates ISQC 1 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' issued by the IAASB. Words have only been changed where there is a need to accommodate Australian legislation and environment, and to fit within the structure of APES 320. These changes do not affect the substance of the requirements. Where paragraphs of APES 320 have no equivalent in the corresponding international standard, they are denoted with the letters "AUST" before the paragraph number.*

***Compliance with ISQC 1***

The basic principles and essential procedures of APES 320 and ISQC 1 are consistent except for:

- The addition of paragraphs prefixed as AUST in APES 320; and
- The Scope and application section included in APES 320 in accordance with the APESB's drafting conventions.

**Application requirements for Firms**

The application requirements for Firms are summarised in the flow chart below.

