

## ISQC 1: POLICY AND PROCEDURES DEVELOPMENT GUIDANCE

|     |   | ISQC    | Areas Where the Respective Policy and Procedure Could be Documented  |   |   |   |   |  |
|-----|---|---------|--|---|---|---|---|--|
|     |   |         | QC Manual  | Audit Manual  | Staff Handbook  | Employment Contract   | Training Program  | Other                                  |
| 1   | <b>LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM</b>  |         |  |   |   |   |   |  |
| 1.1 | To promote an internal culture based on the recognition that quality is essential in performing engagements.                    | 9       | QC leadership responsibilities to be defined.<br><br>The structure of the quality control function, the qualifications of the person heading the function and the authority of the person. | Statement on commitment to quality on performance of engagements.<br><br>Audit manual to comply with ISA 220 requirements.  | Evaluation, compensation and promotion policies based on commitment to quality. | Communicate expectations on quality and adherence to professional and ethical requirements.   | Communication of the firm's commitment to quality control and policies and procedures to achieve these. | Mission statement to refer to quality. |
| 2   | <b>ETHICAL REQUIREMENTS</b>   |         |  |   |   |   |   |  |
| 2.1 | To provide reasonable assurance that the firm and its personnel comply with the relevant ethical and independence requirements. | 14 / 18 | A statement of services that the firm considers itself competent to provide and which of these can be provided to audit clients.<br><br>Overall policy on independence.                    | Policy on independence and situations that should be considered prior to acceptance of an engagement.<br><br>Matters to consider when assessing client acceptance / continuation. | Ethics policy and code of conduct which should be available to all.             | Requirement that the staff adhere to the firm's ethics policy and code of conduct.<br><br>Adherence to the independence requirements of the firm. | Training on ethics and code of conduct.   |  |

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| 2.2 | <p>To communicate independence requirements to personnel and others subject to independence requirements.</p> <ul style="list-style-type: none"> <li>Investment in clients</li> <li>Over-reliance on income from individual clients</li> <li>Contingent fees and commission arrangements</li> <li>Prohibition of certain professional services (e.g. acting as management, internal audit, etc)</li> <li>Acceptance of gifts, etc</li> <li>Personal relationships with key client personnel.</li> </ul> | 18(a) | Accessibility of manual.  | Accessibility of manual.                                | Policy on independence and the requirement that professional staff complete an independence confirmation annually and the requirement to report instances where independence is compromised. Accessibility of manual. | Requirement to report all instances where independence is compromised. | Training on the firms policies. |   |
| 2.3 | To identify and evaluate circumstances that create threats to independence, and demonstrate that appropriate action has taken place to eliminate those threats or reduce them to an acceptable level or withdraw from the engagement.   | 18(b) | Policy on identification and evaluation of threats.                 | Requirement to confirm independence on each engagement. | Emphasise need for staff to notify the engagement partner on all identified threats to ethical and independence requirements.   |  |                                 | Client listing to be maintained identifying the scope and nature of services offered. |
| 2.4 | To provide reasonable assurance that appropriate action is taken on all notified breaches of independence requirements.   | 20    | Policy and procedures on resolution.                                | Policy and procedures on resolution.                    |   |  |                                 |   |
| 2.5 | Obtaining, at least annually, written confirmation of compliance with the policies and procedures on independence from all firm personnel required to be independent by the IFAC or National Code.  | 23    | Policy and procedures on written confirmation.                      |   | Policy and procedures on written confirmation.  | Obligation to provide annual confirmation.                             |                                 | Plan timing of annual confirmation .  |

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| 2.6 | Policies and procedures regarding the rotation of senior personnel on an audit engagement over a long period of time. (For audits of listed entities, the IFAC Code requires rotation of the engagement partner at least once every seven years). | 25   | Policy on rotation.  | Policy on rotation and the requirement to record the length of service.            |                |                     |                  | Record of length of service by key staff on each engagement. |
| 3   | <b>ACCEPTANCE AND CONTINUANCE OF AUDIT ENGAGEMENTS</b>  |      |  |  |                |                     |                  |  |
| 3.1 | Decisions to accept or continue an audit engagement.  | 28   | Policy and procedures on client acceptance and continuation. Policy and procedures on withdrawals / resignation. | Detailed acceptance and continuation procedures including documentation standards. |                |                     |                  |  |

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| 4   | <b>HUMAN RESOURCES</b>   |                |   |   |  |   |   |   |
| 4.1 | <p>To provide reasonable assurance that sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform engagements in accordance with professional standards and regulatory requirements are available to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. As a minimum such policies and procedures should include:</p> <ul style="list-style-type: none"> <li>▪ Recruitment;</li> <li>▪ Professional qualifications;</li> <li>▪ Continuing professional development and training;</li> <li>▪ Work experience;</li> <li>▪ Coaching by senior staff;</li> <li>▪ Performance evaluation;</li> <li>▪ Career development;</li> <li>▪ Promotion;</li> <li>▪ Compensation; and</li> <li>▪ The estimation of personnel needs (capacity).</li> </ul> | 36<br>37<br>38 | Overall policy on staff and adherence to quality standards.         | <p>Requirement to assess competence of the engagement team.</p> <p>Definition of the respective responsibilities of team members.</p> <p>Policy on briefing and coaching of teams.</p> <p>Policy on review and supervision.</p> | Policy on training, professional development, work experience, performance evaluation, promotion and compensation. | Requirement to comply with the staff hand books and all policies and manuals of the firm. | Training program based on needs at different stages of career development . | Business plans forecasting staff needs based on growth trends and new services. |

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| 4.2 | <p>To provide reasonable assurance that:</p> <ul style="list-style-type: none"> <li>▪ The identity and role of the engagement partner are communicated to key members of client management and those in charge with governance;</li> <li>▪ The engagement partner has the appropriate capabilities, competence, authority and time to perform the role;</li> <li>▪ The responsibilities of the engagement partner are clearly defined and communicated to that partner; and</li> <li>▪ Appropriate staff are assigned with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory requirements, and to enable the firm or engagement partners to issue reports that are appropriate?</li> </ul> | 42<br>44  | Overall policy on responsibilities of the partners. | <p>Define roles and responsibilities of the engagement team.</p> <p>Requirement for briefing the audit team.</p> <p>Engagement letter to identify the engagement partner.</p> <p>Requirement for a job budget to be produced identifying staffing needs.</p> |                | Duties to be defined. | Ensuring that training is responsive to the needs of the staff and covers professional standards and legal, ethical and regulatory requirements . | <p>Revenue work load budget per partner.</p> <p>Defining services that each partner can provide.</p> <p>Staff planning system coordinated with job budgeting.</p> |

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| 5   | <b>ENGAGEMENT PERFORMANCE</b>  |      |   |   |                |  |  |  |
| 5.1 | <p>To provide reasonable assurance that engagements are performed in accordance with professional standards and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances? This should include:</p> <ul style="list-style-type: none"> <li>▪ Briefing of the engagement team on the objectives of the assignment;</li> <li>▪ Procedures for complying with applicable standards;</li> <li>▪ Coaching;</li> <li>▪ Engagement review and supervision;</li> <li>▪ Methods of reviewing significant judgements made and the form of report issued;</li> <li>▪ Documentation of work; and</li> <li>▪ Processes to keep policies and procedures current.</li> <li>▪ Audit manuals; and</li> <li>▪ Documentation standards.</li> </ul> | 46   | Policy on all headings.   | <p>Procedures to ensure all requirements of ISAs are complied with.</p> <p>Detailed policy on briefing, coaching, review and supervision and documentation standards.</p> |                | Expectation for staff to keep themselves up-to-date. | <p>Training material to be regularly updated.</p> <p>Regular technical updates to be presented, covering all relevant changes in professional standards and regulations.</p> | Individual(s) to be assigned responsibility for keeping all material, including manuals, up-to-date. |

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| 5   | <b>CONSULTATION</b>  |      |   |  |                |                     |                  |       |
| 5.2 | <p>To provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> <li>▪ Appropriate consultation takes place on difficult or contentious matters;</li> <li>▪ Sufficient resources are available to enable appropriate consultation to take place;</li> <li>▪ The nature and scope of such consultations are documented; and</li> <li>▪ Conclusions resulting from consultations are documented and implemented?</li> </ul> | 51   | Policy on consultations.  | Policy on consultation and documentation of conclusions and implementation . |                |                     |                  |       |

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| 5   | <b>DIFFERENCES OF OPINION</b>   |      |   |   |  |                     |                  |       |
| 5.3 | Dealing with differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. | 57   | Policies and procedures on resolution of differences.               | <p>Policies and procedures on resolution of differences including differences between:</p> <p>Members of an engagement team.</p> <p>The engagement partner and person consulted.</p> <p>The engagement partner and the engagement quality control reviewer.</p> | Policies and procedures on resolution of differences of opinion between members of an engagement team. |                     |                  |       |



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| 5   | <b>ENGAGEMENT QUALITY CONTROL REVIEW</b>  |          |  |   |                |                     |                  |  |
| 5.4 | <p>Requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report.</p> <p>Do these:</p> <ul style="list-style-type: none"> <li>Require an engagement quality review for all audits of financial statements of listed entities;</li> <li>Set out criteria against which all other audits should be evaluated to determine whether an engagement quality review should be performed; and</li> <li>Require an engagement quality control review before the report is issued for all engagements meeting the criteria established above?</li> </ul> | 60<br>61 | Policies on engagements requiring an engagement quality control review.      | Policies on engagements requiring an engagement quality control review. |                |                     |                  | List of engagement requiring engagement quality control reviews. |
| 5.4 | <p>Criteria for the eligibility of engagement quality control reviewers.</p> <p>Documentation requirements for an engagement quality control review.</p>  | 63       | Polices for approving the selection of reviewers with sufficient competence. | Policy and documentations standards for reviews.                        |                |                     |                  |  |
| 6   | <b>MONITORING</b>   |          |  |   |                |                     |                  |  |

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| 6.1 | To provide reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.   | 74   | <p>Policy on timing and extent of monitoring activities.</p> <p>Policy on criteria for selection of monitoring personnel.</p> <p>Detailed procedures to be followed by monitoring personnel.</p> |              |   |                     |                  | Budgets and plans for monitoring. |
| 6   | <b>COMPLAINTS AND ALLEGATIONS</b>   |      |  |              |   |                     |                  |                                   |
| 6.2 | <p>To provide reasonable assurance that the following are appropriately dealt with:</p> <ul style="list-style-type: none"> <li>Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory requirements; and</li> <li>Allegations of non-compliance with the firm's system of quality control?</li> </ul> | 89   | Policy for receiving and responding to complaints.   |              | Policy for receiving and responding to complaints - internal. |                     |                  |                                   |