



# **International Standards on Quality Control (ISQC) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements**



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# Agenda

## Scope of ISQC 1

### Objectives

### Éléments of a System of Quality Control

- ▶ Leadership responsibilities for quality within the firm
- ▶ Relevant ethical requirements
- ▶ Acceptance and continuance of client relationships
- ▶ Human resources
- ▶ Engagement performance
- ▶ Monitoring

### Documentation

# Scope of ISQC1

- ▶ The standard deals with a firm's responsibilities for its systems or quality control for audits and reviews of financial statements, and other assurance and related services engagements
- ▶ It applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements

# Scope of ISQC1

- ▶ The nature and extent of the policies and procedures developed to comply with ISQC1 will depend on a number of factors including but not limited to size and operating characteristics of the firm.

# Objectives

Audit firms/practitioners are required to design and maintain systems of quality control that provide them with assurance that:

- ▶ The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- ▶ Reports issued by the firm or engagement partners are appropriate in the circumstances

# Elements of a System of Quality Control

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

- ▶ Leadership responsibilities for quality within the firm
- ▶ Relevant ethical requirements
- ▶ Acceptance and continuance of client relationships
- ▶ Human resources
- ▶ Engagement performance
- ▶ Monitoring

The firm shall document these policies and procedures and communicate them to its personnel.



# Leadership responsibilities for quality within the firm

- ▶ Promote an internal culture recognising that quality is essential in performing engagements
- ▶ The firm's Chief executive Officer (or equivalent) or, if appropriate, the firm's managing Board of Partners (or equivalent) shall assume ultimate responsibility for the firm's system of quality control.
- ▶ Persons assigned operational responsibility on quality control shall have sufficient and appropriate experience as well as ability and necessary authority to carry out that responsibility.

# Relevant Ethical Requirements

## Independence:

- ▶ Establish policies and procedures to provide reasonable assurance that the firm, its personnel and others subject to independence (including network firm personnel and contractors) maintain independence where required.
- ▶ Communicate independence requirements to personnel.
- ▶ Identify and evaluate threats to independence and take appropriate actions to eliminate them or reduce them to an acceptable level by applying safeguards or if possible, withdraw from the engagement.



# Relevant Ethical Requirements

## Independence:

- ▶ At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements.
- ▶ Set out criteria for determining the need for safeguards to reduce familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time.

# Relevant Ethical Requirements

## Independence:

- ▶ 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 should be observed.

# Acceptance and Continuance of Client Relationships

The firm shall establish policy mechanisms 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:

- ▶ Is competent to perform the engagement and has capabilities, including time and resources, to do so;
- ▶ Can comply with relevant ethical requirements; and
- ▶ Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

# Human Resources

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:

- ▶ Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
- ▶ Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

# Human Resources

## Assignment of Engagement Teams

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

- ▶ The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;
- ▶ The engagement partner has the appropriate competence, capabilities and authority to perform the role; and
- ▶ The responsibilities of the engagement partner are clearly defined and communicated to that partner.

# Engagement Performance

The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:

- ▶ Matters relevant to promoting consistency in the quality of engagement performance;
- ▶ Supervision responsibilities; and
- ▶ Review responsibilities.



# Engagement Performance

## Consultation:

- ▶ 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 resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
- ▶ Conclusions resulting from consultations are implemented

# Engagement Performance

## Engagement Quality Control Review:

- ▶ Requirement for an engagement quality control review for all audits of financial statements of listed entities;
- ▶ 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
- ▶ Require an engagement quality control review for all engagements, meeting the criteria established.

# Engagement Performance

## Differences of Opinion

The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Such policies and procedures shall require that:

- ▶ Conclusions reached be documented and implemented; and
- ▶ The report not be dated until the matter is resolved.

# Engagement Performance

## Engagement Documentation

- ▶ Completion of the assembly of final engagement files on a timely basis after the engagement reports have been finalized.
- ▶ Confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation
- ▶ Retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation

# Monitoring the Firm's Quality Control Policies and Procedures

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:

- ▶ 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;

# Monitoring the Firm's Quality Control Policies and Procedures

- ▶ 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
- ▶ Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.



# Monitoring the Firm's Quality Control Policies and Procedures

## Evaluating, communicating and remedying identified deficiencies

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

- ▶ Instances that do not necessarily indicate that the firm's system of quality control is insufficient; or
- ▶ Systemic, repetitive or other significant deficiencies that require prompt corrective action

# Monitoring the Firm's Quality Control Policies and Procedures

## Complaints and Allegations

The firm shall establish policies and procedures that deal appropriately with:

- ▶ Complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and
- ▶ Allegations of non-compliance with the firm's system of quality control.

The firm shall establish clearly defined channels for personnel to raise concerns in a manner that enables them to come forward without fear of reprisals

# Documentation of the System of Quality Control

- ▶ Appropriate documentation to provide evidence of the operation of each element of its system of quality control.
- ▶ Retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.
- ▶ Documentation of complaints and allegations and the responses to them.



