

**THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**

**AUDIT MONITORING AND QUALITY ASSURANCE REVIEW MANUAL**

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# **AUDIT MONITORING AND QUALITY ASSURANCE REVIEW MANUAL**

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## **1. Introduction and Background**

### **1.1 Introduction**

Quality control is addressed at three levels: the engagement level, the firm level and the member body level.

An Assurance Quality Review is intended to:

- Evaluate a practice unit's performance of its overall quality and risk management responsibilities relative to the firm's policies and procedures and the performance of its partners and staff on selected individual engagements;
- Provide reasonable assurance that:
  - Audit examinations are performed in accordance with generally accepted auditing standards (both with regard to the adequacy of work done and the record of examination), financial statements are prepared in conformity with applicable accounting framework, and reports issued are appropriate in the circumstances;
  - Other Assurance services are performed to appropriate standards and documented in accordance with the firm's policies and procedures and that reports are appropriate in the circumstances;
  - Reports issued and supporting working papers do not expose the firm to litigation risk; and
  - Appropriate action is taken if any engagement is discovered which exposes the firm to unacceptable risks.
- Identify the root causes of failings that are identified where an engagement is rated unsatisfactory at summary conclusion level, or where there are recurring checklist section conclusions that performance needs improvement in a practice unit;
- Assess the operations and procedures of the Assurance practice unit to identify any factors, which increase the firm's risk;
- Ascertain that risk management policies and procedures are in place and are being complied with;
- Corroborate the effectiveness of action plans for correcting deficiencies revealed by previous reviews;
- Provide constructive recommendations for correcting deficiencies noted during the review.

## **1.2 Scope of Quality Assurance Review Program**

- The member body should ensure that a mandatory quality assurance review program is established for those of its members performing audits of financial statements of, as a minimum, listed entities. The member body should establish and publish criteria for evaluating all other audits of financial statements to determine whether they should be included in the scope of the program; any engagements meeting these criteria should be included in the scope of the quality assurance review.
- It is desirable for a wide range of professional services performed by professional accountants to be subject to quality assurance review programs that are commensurate with the nature of the services. Member bodies should extend the scope of quality assurance review programs to cover as many professional services as possible. The public interest, however, requires that certain types of engagements be subject to mandatory quality assurance reviews. It is the responsibility of member bodies to identify the criteria, or risk factors, for selecting engagements to be subject to mandatory quality assurance review. Because the public places greater reliance on audits of financial statements of listed entities, it is appropriate that mandatory quality assurance review programs apply at least to those engagements.
- Criteria for extending the scope of engagements that will be subject to a quality assurance review include:
  - The number and range of stakeholders who may make decisions based on the auditor's report.
  - The extent to which the subject matter and the auditor's report are of public interest, or may affect the public's confidence in public institutions or public administration.
- The implementation of an appropriate system of quality control is the responsibility of individual firms. Member bodies require their members (a) to adhere to a code of ethics (such as the IFAC Code), and (b) to implement a system of quality control for the performance of audit engagements in accordance with ISQC 1 and ISA 220.

## **1.3 Purpose**

One of the aims of ABWA is to promote confidence in corporate reporting and governance. The program of audit review is to promote high quality auditing. ABWA's responsibility extends beyond monitoring compliance with specific requirements of the regulatory framework and includes an assessment of the key audit judgments made.

## **1.4 Overview**

ABWA will take a constructive approach to audit monitoring as it wishes its practitioners to achieve and maintain a satisfactory standard of auditing. At all visits the compliance officer advises firms on how to improve the standard of their audit work and confirms this in a report. A first visit, whatever the outcome, will usually be treated as advisory: it is very unlikely that the findings would be referred to the Licensing Authority (LA) for it to consider whether to take regulatory action. Even where a firm's second visit also has an unsatisfactory outcome, as long as the firm has made a significant improvement and appears able and willing to make the necessary further improvement, it may be decided not to refer the findings to the LA. In addition, the LA rarely considers removing a firm's audit registration the first time a firm's visit findings are referred to it, except where a firm does not respond appropriately or at all to the report.

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The policy will allow for flexibility when firms improve between visits or when firms had borderline unsatisfactory outcomes. In particular, the LA will give a firm another chance, even where a firm has not achieved a satisfactory standard at a visit ordered by the LA: this is as long as the firm has improved and shows that it is willing and able to make the further improvement necessary.

A firm's first monitoring visit remains advisory, although if an audit partner has had a visit in a previous firm then it will be that person's second visit. The firm will be advised of the deficiencies and on how to make improvements. This will be summarised in the report sent to the firm after the visit. Nevertheless, if it appears that a firm has not tried to carry out an audit in accordance with auditing standards then the findings could be referred to the LA at a first visit.

At subsequent visits, firms are expected to achieve a satisfactory standard of audit work, or to maintain it where the outcome to their first visit was satisfactory. Any firm could face referral to the LA if second or subsequent visits are unsatisfactory, although account will be taken of what the firm has done to improve the standard of its audit work and its ability to achieve a satisfactory standard. Where firms' audit work has deteriorated from a satisfactory standard at a previous visit, a referral will depend on how significant the deterioration is.

Firms therefore have to ensure that they achieve and maintain a satisfactory standard of audit work. In order to do this, firms need to show that they have carried out their audits substantially in accordance with auditing standards. In particular, each audit file should show that the firm has obtained sufficient audit evidence for the key areas of the audit to support the audit opinion issued.

There are various means by which a firm can improve its procedures and achieve and maintain a satisfactory standard of audit work. For those firms which have had a visit, the report will detail the deficiencies found and contain advice on how to make improvements.

Firms should note that International Standard on Quality Control 1 requires them to have written monitoring procedures. Such monitoring procedures include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic review of a selection of completed engagements. Although the standard does not require the firm to introduce external monitoring procedures it is often difficult for firms, particularly small ones, to assess the standard of their own work objectively. An external review of audit files on a voluntary basis will be much more effective and the firm should also receive practical guidance.

## **2 Objectives of Quality Assurance**

### **2.1 Professional Requirements regarding Quality Assurance**

As the standards to be observed have become increasingly complex, there is also a greater likelihood that errors and, possibly, breaches of professional duties may occur. Moreover, audit clients are showing a growing propensity to assert recourse claims against their auditor for alleged damages. Consequently, it is essential that firms can prove compliance with the standards that apply to their activities. Against the background of the developments in the regulatory environment, the auditing profession has expanded the quality assurance requirements in public auditing firms in recent years. The establishment and documentation of a quality assurance system in the public auditing practice is in many countries a legal requirement and at the same time an obligation based on the International Standard on Quality Control (ISQC 1).

The quality targets that apply in Audit and Assurance may be summarised as follows:

- Compliance with professional duties, technical standards and the firm's policies
- Reasonableness of the fees
- Economic efficiency of conducting the engagement and
- Client satisfaction

### **2.2 International Standards on Auditing**

International Standards on Auditing require that audit firms comply with ethical requirements and plan and perform their audit to obtain reasonable assurance that the financial statements are free from material misstatement. The purpose of ISA 220 Quality Control For Audits of Historical Information is to establish standards and provide guidance on specific responsibilities of firm personnel regarding quality control procedures for audits of historical financial information, including audits of financial statements.

Under International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," a firm has an obligation to establish 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 the auditors' reports issued by the firm or engagement partners are appropriate in the circumstances.

### **2.3 International Standard on Quality Control 1**

Compliance with International Standards on Auditing ("ISA") requires a practitioner to have a system of quality control over its auditing practice. These controls are embedded as part of the practitioner's day-to-day activities. The quality control system is in compliance with International Standard on Quality Control 1 (ISQC1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, issued by the International Federation of Accountants (IFAC). The quality control system under ISQC1, encompass the following six elements:

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1. Leadership Responsibilities for Quality within the Firm
2. Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Human Resources
5. Engagement Performance
6. Monitoring

### **2.4 Code of Ethics**

ABWA subscribes to the IFAC Code of Ethics.

#### **Ethical Requirements**

The member body and quality assurance review team should consider the fundamental principles set out in the IFAC Code (in addition to relevant national codes of ethics) in relation to the quality assurance review team's conduct of a review.

When selecting a review team for an individual quality assurance review assignment, those responsible for selection and approval should consider whether the independence of the quality assurance review team leader and each member of the quality assurance review team has been determined. Quality assurance review team members are expected to be independent of the practitioner and the practitioner's clients selected for review.

Independence is addressed with respect to assurance engagements. Even though the report issued by the quality assurance review team may not be an assurance report, independence of quality assurance review team members is required.

Firms and their peers should not perform reciprocal quality assurance reviews. Performance of other reciprocal professional services by the quality assurance review team and the practitioner does not, however, impair independence, so long as the fees charged are not material to either party, and the services are not an integral part of the practitioner's system of quality control.

If concerns regarding threats to the independence of the quality assurance review team cannot be eliminated or reduced to an acceptable level by appropriate safeguards to the satisfaction of all parties, a different quality assurance review team is appointed.

#### **Confidentiality**

The quality assurance review team should follow confidentiality requirements similar to those established for professional accountants performing audits of financial statements.

The obligation of professional confidentiality binds (a) all persons who work or have worked for the member body, regulator or other competent authority responsible for administering and overseeing the quality assurance review program and (b) all persons involved with the applicable oversight system.



**3 Statements of Membership Obligations No. 1 (SMO1) – “Quality Assurance”**

**3.1 Introduction**

Statements of Membership Obligations (SMOs or Statements) provide clear benchmarks to current and potential ABWA member bodies to assist them in ensuring high quality performance by professional accountants. The Statements cover a member body's obligations to support the work of ABWA, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline.

The SMOs will form the basis of the ABWA Member Body Compliance Program. Member bodies will be required to perform self-assessments of their compliance with each of the SMOs including an assessment of actual standards in place in comparison to the relevant ABWA standards. The SMOs apply to full and associate members of ABWA.

**3.2 Purpose**

**SMO 1 – Quality Assurance**

***Subject Matter***

SMO 1 is to be applied by member bodies of ABWA to quality assurance review programs for their members performing certain audit engagements of financial statements. It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of Government, regulators or other agencies.

***Quality Control Standards***

SMO 1 requires member bodies to establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with the International Standard on Quality Control (ISQC) 1.

These Statements require member bodies to use their best endeavors to meet the obligations. A member body will have been considered to have used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.

Despite the general application of SMOs to full and associate members, ABWA will take into account the relevance and application of SMO obligations to each member body in assessing the level of compliance. This recognises the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body's compliance with the SMOs as part of the ABWA Member Body Compliance Program, a member body's stage of development will also be considered. In exceptional circumstances, a member body may depart from the obligations contained in these Statements, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of these Statements, or fails to justify satisfactorily why it has departed from them, may be suspended or removed from membership.

When assessing compliance with the SMOs, ABWA will consider projects and initiatives underway at the standard setting level that could impact the structure or content of the applicable standards. Due recognition will be given to the potential impact on national standard setting activities as well as the associated timeframe required to accommodate changes in the structure and content of standards. Member bodies will not be assessed as

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noncompliant as long as there is an agreed action plan and timetable for achieving compliance and progress against the plan can be demonstrated. It is important to understand that it is possible for member bodies to comply with the obligations of an SMO, even if Government, regulators or other appointed authorities carry out some or all of the functions specified in that SMO. In such circumstances, the obligation of ABWA member bodies is to use their best endeavors to encourage those entrusted with those functions to implement them in accordance with the provisions of these Statements and to assist them in implementing those functions when appropriate.

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### 4 Quality Assurance Review – Structure and Procedures

#### 4.1 Introduction

Quality Assurance Reviews (QAR) involve assessing the independence of the auditors, the sufficiency and appropriateness of the audit evidence obtained and the appropriateness of the key audit judgments made. In some cases it may be possible to determine in this way that an *inappropriate* audit opinion was issued. However, member bodies will review only information held by the auditors, as there will be no access to their clients' records or personnel and do not re-perform audit work undertaken by them. While member bodies can form a view, therefore, as to the adequacy of the audit evidence obtained to support the audit opinion, these inherent limitations mean that member bodies will not usually be able to confirm the appropriateness of the audit opinion. QAR involve an assessment of the key factors driving audit quality which are *inputs* to the audit process. Using the terminology adopted in ISQC 1 for factors driving audit quality, key elements of the audit process that will be assessed during reviews may be summarised as follows:

Factors driving audit quality	Key elements
Leadership	Tone at the top, which supports audit quality through the firm's strategy, objectives and targets, internal communications and reward mechanisms.
Ethical policies and acceptance/continuation of audit engagements	Independence, integrity and objectivity and other ethical policies compliant with the regulatory framework; appropriate risk management procedures in relation to client acceptance and continuance and high risk audit clients.
Human resources	Competence and motivation of partners and staff, with appropriate training and evaluation; recruitment of staff with appropriate skills and qualifications; allocation of appropriate partners and staff to audits.
Engagement performance	Robust and appropriate audit methodology compliant with the regulatory framework; appropriate and timely planning; sufficient time spent on audits; appropriate judgments, rigour and professional scepticism applied on audits; clear understanding of roles of partners and staff on audits; sufficient and appropriate documented evidence supporting audit opinions;  review and consultation procedures, including independent partner reviews; regular and appropriate communications with client management, directors and the Audit Committee.
Monitoring	Effective internal Quality Assurance Review (QAR) and other monitoring procedures by the firm; appropriate and timely actions in relation to weaknesses identified by the QAR or through the external monitoring process.

## **4.2 Quality Assurance Review Team Procedures**

ABWA will require quality assurance review teams to follow procedures that are based on published guidelines. These procedures should include reviews of engagement working papers and discussions with appropriate personnel.

The procedures performed during the quality assurance review should include:

- An assessment of the system of quality control relating to audits of financial statements of listed entities.
- Sufficient review of the quality control policies and procedures and reviews of engagement working papers to evaluate:
  - The functioning of that system of quality control, and compliance with it; and
  - The compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements.

The review of engagement working papers should include evaluating:

- The existence and effectiveness of the system of quality control implemented by the practitioner, and the performance of the engagement.
- Compliance with professional standards and regulatory and legal requirements related to the engagement.
- The sufficiency and appropriateness of evidence documented in the working papers.
- Based on the above, whether the auditor's reports are appropriate in the circumstances.

Procedures the quality assurance review team may consider when performing the quality assurance review include:

- Obtaining a sufficient understanding of:
  - The nature and extent of the practitioner's audit practice and the methodologies used.
  - The design of the practitioner's system of quality control.
  - The internal ethical and independence policies and procedures.
  - The practitioner's training policies and procedures.
- Testing the effectiveness of the practitioner's monitoring procedures in place for the period under review, and whether the quality assurance reviewer can rely on them by performing tests of the conclusions of the applicable period's monitoring as a source of evidence.
- Reviewing compliance with the practitioner's system of quality control relating to audits of financial statements.
- Reassessing the adequacy of the scope of the quality assurance review by evaluating the results to determine whether additional procedures are necessary to support or reach a conclusion.
- Holding a closing meeting with the practitioner to discuss the quality assurance review team's results, conclusions, recommendations, and the type of report to be issued.

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- Providing the practitioner with conclusions and recommendations for corrective actions.

### *Reviews of Firmwide Procedures*

Reviews of firmwide procedures address all aspects of firms' systems of quality control, including their internal quality review procedures. Review procedures recognise the importance of the culture established by the firms' leadership team in promoting audit quality and professional integrity (the "tone at the top"). Consider, for example, how the firms' commitment to quality and integrity is reflected in the basis on which partners are appointed, remunerated and promoted to more senior roles. Review the basis on which audit partners are appointed to lead major audits, act as a key audit partner or as the independent quality control reviewer, and the procedures for rotating them off major audits to mitigate familiarity threats. ABWA will also review the firms' human resource systems more generally; the competence and motivation of audit personnel is, considered the most important element in achieving high quality audits. The regulatory framework requires that firms have in place an annual quality review which includes reviews of a selection of completed audits. The number of audits reviewed in a Quality Assurance Review (QAR) is usually significantly higher than the number subject to external monitoring but the reviews are typically conducted in less depth than QAR. ABWA will review how the firm conducts its QAR, how effective the process is, the overall findings (comparing these with ABWA's findings) and any remedial actions taken or planned by the firm.

### *Reviews of Individual Audit Engagements*

Member firms should carry out in depth reviews of individual audit engagements intended to provide a sound basis on which to assess the quality of each audit reviewed. The work programmes should be structured around the requirements of Auditing Standards and tailored by each review team to ensure both that reviews are sufficiently focused on the major risk areas identified for each audit and that an appropriate level of coverage of the requirements of Auditing Standards is achieved across all reviews carried out at each firm. Review teams challenge audit partners, where appropriate, regarding the basis on which key audit judgments were made. ABWA believes that challenging audit judgments in this way is a key feature of an effective review of audit quality.

ABWA's focus in relation to financial reporting issues identified is on the appropriateness of audit judgments exercised and any underlying deficiencies in the firm's audit work and quality control procedures. Accounting and disclosure issues arising are therefore raised with firms in an audit context rather than a financial reporting context. Audit judgments on financial reporting issues should, however, be challenged where appropriate as an integral part of the review.

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### **4.3 Documentation**

The quality assurance review team should document matters that:

- (a) Provide evidence supporting the quality assurance review report; and
- (b) Establish that the quality assurance review was carried out in accordance with established guidelines.

The quality assurance review team maintains documentation that supports the work performed, findings, recommendations, and conclusions. The quality assurance review team leader instructs the quality assurance review team on how to prepare, store, and retain documentation (programs, checklists, etc.).

During the review, the quality assurance review team:

Documents the planning of the review, the scope of work performed, the conclusions reached, and comments made to the firm or partner that were not deemed sufficiently significant to be included as a finding;

Evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the design of the firm's system of quality control and in the firm's compliance with its system;

- (c) Evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the performance of an engagement; and
- (d) Summarises conclusions.

Member bodies should determine how long to retain documentation after completion of the quality assurance review. The time should be long enough to allow a member body or its oversight body, if any, to maintain appropriate oversight of the quality assurance review process.

### **4.4 The Quality Assurance Review Team Skills and Competence**

Members of a quality assurance review team should have the necessary competencies to perform the work expected of them. These competencies include:

- (a) Appropriate professional education;
- (b) Relevant professional experience; and
- (c) Specific training on performing quality assurance reviews.

Members of a quality assurance review team should possess certification or credentials that ABWA requires.

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Those who select and approve the quality assurance review team consider which of the following competencies and areas of expertise are required in the quality assurance review:

- Understanding of professional standards and regulatory and legal requirements.
- Understanding the guidelines the member body sets for performing quality assurance reviews.
- Understanding and practical experience of audit engagements and quality assurance reviews through appropriate training and participation.
- Appropriate technical knowledge, including knowledge of relevant information technology.
- Knowledge of specific industries.
- Ability to apply professional judgment.

Individuals selected as quality assurance review team leaders and members of quality assurance review teams are required to be members in good standing in the profession. An individual may not serve as a quality assurance reviewer if his or her ability to practice public accountancy has been limited in any way by a regulatory, profession-wide monitoring organisation, or enforcement body until the limitation or restriction has been removed.

The quality assurance review team should consist of an appropriate number of reviewers to accomplish the review within a reasonable time period.

### **4.5 The Quality Assurance Review Team Leader**

A quality assurance review team leader should be assigned for each quality assurance review assignment. The team leader should:

- (a) Supervise the conduct of the quality assurance review;
  - (b) Communicate the quality assurance review team's conclusions to the practitioner;
- and
- (c) Prepare the quality assurance review report.

The quality assurance review team leader has significant involvement in the planning of the quality assurance review, and at the closing meeting. The quality assurance review team leader is involved in discussing significant conclusions with the practitioner and the quality assurance review team, and interacts with the practitioner and the reviewers during the quality assurance review.

The team leader attends review training courses approved by member bodies to obtain current knowledge of the quality assurance review process, and otherwise maintains competencies in conducting such reviews.

1. Member bodies shall ensure that all statutory auditors and audit firms are subject to a system of quality assurance which meets at least the following criteria:

- (a) the quality assurance system shall be organised in such a manner that it is independent of the reviewed statutory auditors and audit firms and subject to public oversight;
- (b) the funding for the quality assurance system shall be secure and free from any possible undue influence by statutory auditors or audit firms;
- (c) the quality assurance system shall have adequate resources;
- (d) the persons who carry out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting combined with specific training on quality assurance reviews;

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(e) the selection of reviewers for specific quality assurance review assignments shall be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between the reviewers and the statutory auditor or audit firm under review;

(f) the scope of the quality assurance review, supported by adequate testing of selected audit files, shall include an assessment of compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent, of the audit fees charged and of the internal quality control system of the audit firm;

(g) the quality assurance review shall be the subject of a report which shall contain the main conclusions of the quality assurance review;

(h) quality assurance reviews shall take place at least every three to six years;

(i) the overall results of the quality assurance system shall be published annually;

(j) recommendations of quality reviews shall be followed up by the statutory auditor or audit firm within a reasonable period.

If the recommendations referred to in point (j) are not followed up, the statutory auditor or audit firm shall, if applicable, be subject to the system of disciplinary action or penalties as may be deemed appropriate.

2. Member bodies may, adopt implementing measures in order to enhance public confidence in the audit function and to ensure uniform application of points (a), (b) and (e) to (j) above.

### **4.6 The Design of the Quality Assurance Review Program**

The subject of the quality assurance review program may be either a firm or a partner as determined by member bodies.

- (a) Where the firm is the subject, the program should be designed to obtain reasonable assurance that:
  - (i) The firm has an adequate system of quality control for its practice relating to audits of financial statements of listed entities (and of other entities or engagements as determined by member bodies);
  - (ii) The firm complies with that system; and
  - (iii) The firm and engagement teams have adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.
  
- (b) Where a partner is the subject, the program should be designed to obtain reasonable assurance that:
  - (i) The partner is subject to an adequate system of quality control for the practice of the partner's firm relating to audits of financial statements of listed entities (and of other entities or engagements the member body includes);
  - (ii) The partner complies with that system; and
  - (iii) The partner has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.

Where the firm is the subject of the quality assurance review, the review will need to take into account the work of individual partners to conclude whether the firm has adhered to



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professional standards and applicable regulatory and legal requirements in respect of audit engagements. Where a partner is the subject of the quality assurance review, the review will also need to take into account the system of quality control of the partner's firm to conclude whether the system is adequate, and whether the firm has complied with such system.

When evaluating the adequacy of a firm's system of quality control, the member body considers that the elements of the system of quality control are firm-wide and are not necessarily engagement-specific. However, the firm may establish additional policies and require additional procedures for audits of financial statements of listed entities.

The following should be considered when developing a quality assurance require program:

- Determining whether quality assurance review teams require training in the conduct of quality assurance reviews.
- Evaluating the independence of the members of the quality assurance review teams.
- Evaluating whether quality assurance review teams have the technical skill and knowledge, the specialised experience, and the authority, to perform quality assurance reviews with professional competence.
- Assessing compliance with applicable accounting standards and International Standards on Auditing to the extent such standards are used in the engagements included in the scope of the review.
- Evaluating corrective actions taken by the practitioner with regards to the results of previous quality assurance reviews.
- Documenting the performance of quality assurance review procedures in a manner that permits member bodies or an oversight body to objectively determine whether quality assurance reviews were performed with due care and in compliance with the relevant standards.
- Reporting the conclusions of quality assurance reviews to appropriate individuals in a manner that assists the subjects of reviews to (a) identify and implement any necessary corrective actions, and (b) make other desirable improvements in quality control policies and procedures.
- Imposing, where applicable, added corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each practitioner.
- Imposing disciplinary measures on those who refuse to cooperate in the conduct of the review, fail to take necessary corrective action, or are found to have serious deficiencies in performance that cannot be dealt with by meaningful remedial or educational measures.
- Maintaining the confidentiality of client information.

## **5 Developing an Appropriate Quality Assurance Regulatory Approach**

### **5.1 The Concept of Audit Quality**

The principal output of the audit process is the independent auditors' report on the annual financial statements. Undertaking a quality audit involves obtaining sufficient and appropriate audit evidence to support the conclusions on which the audit report is based and making objective and appropriate audit judgments. If the auditors are not independent of the audited entity, the credibility of their report is significantly reduced.

The auditors' communications with those responsible for overseeing the entity's financial reporting process (normally an Audit Committee reporting to the full Board) is a key aspect of the audit process. A quality audit involves appropriate and complete reporting by the auditors which enables the Audit Committee and Board properly to discharge their responsibilities.

These elements of audit quality may be summarised as follows:

<b>Output</b>	<b>Required features</b>
An appropriate audit opinion to shareholders which is:	Independent Supported by sufficient and appropriate audit evidence Supported by objective judgments
A report to those charged with governance which is:	Complete and appropriate to the circumstances

### **5.2 Monitoring Approach**

A monitoring approach is intended to be challenging for practicing firms, focusing on audit judgments as well as audit processes. Consequently, member bodies approach to audit monitoring for firms will be based on the following characteristics:

- Focus on the quality of auditing;
- Thorough, robust and challenging approach to review visits;
- Wide-ranging reviews of firm-wide procedures, including an assessment of how the culture within firms impacts on audit quality;
- Risk-based selection of individual audits for review;
- In-depth reviews of individual audits, addressing identified areas of risk and including critical assessment of the key audit judgments made in reaching the audit opinion; and
- An assessment of the quality of communications with the Audit Committee.

### **5.3 Quality Control Standards**

Member bodies should establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with ISQC 1.

Individual firms are responsible for implementing policies and procedures that comply with ISQC 1. Member bodies should establish a quality assurance review program that monitors compliance with those policies and procedures.

### **Other Quality Control Guidance**

Assistance may take various forms, depending upon the needs within a country, including:

- Developing guidelines for comprehensive Continuing Professional Development (CPD) programs. These could include (a) guidance on planning or evaluating the adequacy of in-house training, or (b) CPD programs mandated by member bodies or local licensing authority.
- Providing CPD programs to firms without their own programs, including those that are specifically directed to implementing quality control policies and procedures.
- Providing guidelines for conducting effective internal review programs.
- Implementing voluntary programs that enable firms to obtain an independent, confidential assessment of their quality control policies and procedures, apart from any formal quality assurance review program.

### **5.4 Review Cycle**

Member bodies may choose either a cycle or a risk-based approach for selecting practitioners for review. All firms or partners performing audits of financial statements to be reviewed are considered in the selection process.

#### **Cycle Approach**

If a cycle approach is selected, member firms should:

- (a) Adopt a maximum cycle of three years when a firm is the subject of the review; and
- (b) Take into consideration the quality and effectiveness of the internal review program of a partner's firm when a partner is the subject of the quality assurance review.

The review cycle for partners should be determined by each member body. The length of the review cycle should take into consideration the frequency the partner is reviewed under his/her firm's internal monitoring program, as well as the procedures performed.

It may be appropriate to review some practitioners more frequently. For example, the review cycle may be shortened if the results of the previous review were less than satisfactory. Member bodies may identify additional appropriate reasons for conducting reviews more frequently.

#### **Risk-Based Approach**

If a risk-based approach is selected, member bodies should consider various risk factors when determining the firms or partners to be reviewed. Member bodies should ensure that firms or partners are reviewed with reasonable frequency even if not selected for review based on risk factors.

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Examples of risk factors include:

- (a) Number of listed entity clients.
- (b) Number of entities considered to be of public interest.
- (c) Past results of quality assurance reviews, including:
  - (i) Failure to meet Continuing Professional Development requirements;
  - (ii) Independence violations; or
  - (iii) Deficiencies in the design of, or compliance with the firm's system of quality control.

### **Other Considerations**

Audits of financial statements subject to selection for review are ordinarily completed and audits of financial statements with fiscal years periods ending during the review period. If a more recent auditor's report has been issued during the review, consideration is given to reviewing that audit.

If, during or after a quality assurance review period, a firm under review has (a) made a significant acquisition of all or a portion of another firm's practice, or (b) divested itself of a significant portion of its practice, before commencing the review the quality assurance review team should consult with the appointing authority (relevant member body) on the scope of the quality assurance review or other actions that may be taken.

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## **6 Monitoring**

### **6.1 Review rating**

At the conclusion of the quality review process, a firm is rated as follows:

- **Satisfactory:** The firm complies with member bodies practicing regulations and the IFAC code of Ethics and also complies in all material respects with relevant auditing standards and is eligible for audit registration.
- **Acceptable:** The firm is eligible for audit registration; it complies in all material respects with the member bodies practicing regulations and the IFAC code of Ethics, and its audit opinions appear to be supported by the work performed and recorded, but the firm has not complied, in some respects, with relevant auditing standards.
- **Unsatisfactory and improvements required:** The firm is eligible for audit registration, and complies in all material respects with the member bodies practicing regulations and the IFAC code of Ethics, but its quality controls over audit work are either weak or not consistently effective, and the firm has issued at least one audit opinion that was not properly supported by documentary evidence.
- **Unsatisfactory and significant improvements required:** The firm is eligible for audit registration, and complies in all material respects with the member bodies practicing regulations and the IFAC code of Ethics; but it has poor quality controls and often issues audit opinions that are not properly supported by documentary evidence.
- **Referral to a Regulatory Assessor or the Licensing Committee:** Firms may be referred to a Regulatory Assessor or to the Licensing Committee for regulatory action, or to the Professional Conduct Committee for potential disciplinary action, where there are serious or repeated breaches of the member bodies practicing regulations and the IFAC code of Ethics, or where audit work has been unsatisfactory at more than one visit.

### **6.2 Prioritising Recommendations**

Judgment is exercised in assessing the actual or potential impact on audit quality of issues identified in the course of reviews and prioritising recommendations to firms accordingly. Factors that should be taken into account, on a cumulative basis, are set out below:

Individual engagement review issues – factors to be considered:

- The risk that the identified weakness could have contributed to the issue of an audit report which is inappropriate or not independent or supported by sufficient and appropriate audit evidence and objective judgments;
- The risk that the identified weakness could have contributed to incomplete or inappropriate reporting to those charged with governance; and
- The extent to which the identified weakness has affected the audit engagements selected for review.

Firm wide review issues – factors to be considered:

- The risk that the identified weakness could contribute to the issue of an audit report which is inappropriate or not independent or supported by sufficient and appropriate audit evidence and objective judgments;
- The risk that the identified weakness could contribute to incomplete or inappropriate reporting to those charged with governance;
- The extent to which the identified weakness is systemic in nature and could affect a range of audits;
- The existence of effective alternative controls which are likely to mitigate the risks arising from the identified weakness;
- The recurrence, or otherwise, of the identified weakness from one year to the next.

### **6.3 *Monitoring Report***

The monitoring report could take the format in appendix 6.

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**7 Exercising Regulatory action in dealing with unsatisfactory outcomes/reports of Quality Assurance Reviews**

**7.1 Regulatory Policy and Principles**

In carrying out its regulatory function and formulating regulatory policy, member bodies should consider the principles of good regulation and, in particular, how processes and policy are compatible with the regulatory frameworks in the countries where members perform their duties. Member bodies regard the following principles of good regulation as being conducive to efficient and effective regulation:

- **Proportionality:** Regulators should only intervene when necessary. Remedies should be appropriate to the risks posed, and costs identified and minimised. (Regulation can have a disproportionate impact on small businesses).
- **Accountability:** Regulators must be able to justify decisions, and be subject to public scrutiny. They must have clear lines of accountability to Government, users and the public. Proposals should be published and all those affected consulted before decisions are taken.
- **Consistency:** Regulation should be predictable in order to give stability and certainty to those being regulated. New regulations should take account of other existing or proposed regulations, whether domestic or international.
- **Transparency:** Regulators should be open, and keep regulations simple and user-friendly. Policy objectives should be clearly defined and communicated, and the consequences of non-compliance should be made clear.
- **Targeting:** Regulation should be focused on the problem, and minimise side effects. Guidance and support should be adapted to the needs of different groups, and enforcers should focus primarily on those whose activities give rise to the most serious risks.

**Reputation**

Member bodies believe regulation benefits its membership as a whole, and it protects and enhances member bodies reputation, and therefore enhances the value of membership.

**Professional indemnity insurance (PII)**

The general requirement for holders of practising certificates to hold PII ensures that firms have adequate resources to compensate clients if the firm is successfully sued.

**Continuing professional development (CPD)**

All members of ABWA are required to undertake CPD, thereby ensuring that they keep up to date with technical, ethical and practice management issues.

## **Continuity**

An individual in practice must enter into a written agreement with another accountant or firm (the 'nominee'), providing for the nominee (or nominees) to be responsible for the individual's practice in the event of his or her death or incapacity. This ensures that a suitably qualified accountant is available to provide continuity to the clients of the practice.

### **7.2 Corrective and Disciplinary Actions**

Member bodies should require practitioners to make appropriate corrections to their system of quality control, or in their compliance with policies and procedures. When a practitioner subsequently fails to demonstrate compliance with professional standards and regulatory and legal requirements, member bodies should take appropriate disciplinary action.

Member bodies should consider the conclusions of each quality assurance review report. When a quality assurance review report includes unsatisfactory conclusions, member bodies should require the practitioner to provide representations and explanations, including corrective actions the practitioner plans to take.

Member bodies may consider various forms of corrective actions, including:

- Requiring the firm to take corrective measures, including appropriate actions with respect to individual personnel, and engagements.
- Requiring additional continuing professional development.
- Accelerated or special quality assurance reviews.

Member bodies may consider various forms of disciplinary actions including:

- Admonishments, censures, or reprimands.
- Fines.
- Suspension from membership.
- Expulsion from membership.



## **8 Publishing Quality Assurance Reports**

### **8.1 Introduction**

#### **8.1.1 Private Reporting**

Detailed reports will be prepared on each audit engagement reviewed; these reports will be provided to the audit teams concerned and copied to senior management within the firm's audit practice. The key issues arising across reviews of individual audit engagements, and those arising from review of firmwide procedures, will be set out in a formal private report to the firm and to the audit registration committee of the professional body with which the firm is registered.

The private reports will include prioritised recommendations to the firms concerned together with responses and an action plan from the firms. Privatisation of issues and recommendations will be based on the reviewers assessment of their actual or potential impact on audit quality.

#### **8.1.2 Public Reporting**

Member bodies may consider issuing an annual public report setting out the overall findings and conclusions arising from reviews (with some segmentation between firms) but not to publish any part of the reports on individual reviews.

### **8.2 Reporting**

The quality assurance review team leader should issue a written quality assurance review report to the reviewed firm or partner upon completion of each quality assurance review assignment.

The report should include the following elements:

- The guidance utilised by the quality assurance review team.
- Where the subject of the quality assurance review program is a firm, a conclusion on:
  - Whether the firm's system of quality control has been designed to meet the requirements of the quality control standards; and
  - Whether the firm has complied with its system of quality control during the review period.
- Where the subject of the quality assurance review program is a partner, a conclusion on:
  - Whether the partner has been subject to a system of quality control designed to meet the requirements of the quality control standards; and
  - Whether the partner, through the firm, has complied with the firm's system of quality control during the review period.
- Reasons for negative conclusions on the above.
- Recommendations for areas of improvement at both firm wide and engagement level.

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Member bodies should determine the form of the quality assurance review report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).

The reviewed practitioner should provide a timely written response to the recommendations and conclusions of the quality assurance review report, including planned actions and expected time of completion or implementation. The response should be addressed to the quality assurance review team or member body. The expected time of completion should be reasonable and agreed by the practitioner, quality assurance review team, and the member body.

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**9. Applying and Complying with Relevant Requirements of International Standard on Quality Control 1 (Redrafted)**

This section seeks to provide guidance to practitioners on how to implement the requirements of ISQC1 redrafted and also serves as a guide to reviewers on what to look out for. ISQC does not call for compliance with requirements that are not relevant, for example, a sole practitioner may not be required to have policies and procedures for the assignment of appropriate personnel to the engagements, for review responsibilities etc. Documentation and communication of policies and procedures for smaller firms may be less formal and extensive than for larger firms.

**9.1 Leadership Responsibilities for Quality within the Firm**

*Promoting an Internal Culture of Quality (Ref: Para. 18)*

A4. The firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasize the firm's quality control policies and procedures, and the requirement to:

- (a) Perform work that complies with professional standards and regulatory and legal requirements; and
- (b) Issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognizes and rewards high quality work. These actions and messages may be communicated by, 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.

A5. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. 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.

*Assigning Operational Responsibility for the Firm's System of Quality Control (Ref: Para. 19)*

A6. Sufficient and appropriate experience and ability enables the 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.

## **9.2 Relevant Ethical Requirements**

*Compliance with Relevant Ethical Requirements (Ref: Para. 20)*

A7. The IFAC Code establishes the fundamental principles of professional ethics, which include:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

A8. Part B of the IFAC 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.

A9. 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.

*Definition of “Firm,” “Network” and “Network Firm” (Ref: Para. 20-25)*

A10. The definitions of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. For example, the IFAC Code defines the “firm” as:

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means; and
- (c) An entity controlled by such parties through ownership, management or other means.

### **3 IFAC Code, Definitions.**

The IFAC Code also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

*Written Confirmation (Ref: Para. 24)*

A11. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.

*Familiarity Threat (Ref: Para. 25)*

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A12. The IFAC Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.

A13. Determining appropriate criteria to address familiarity threat may include matters such 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.

A14. The IFAC Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IFAC Code requires the rotation of the key audit partner<sup>3</sup> after a pre-defined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.

### Considerations specific to public sector audit organizations

A15. 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 20-25, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.

A16. Listed entities as referred to in paragraphs 25 and A14 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.

A17. 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 A16, it may be in the public interest for public sector audit organizations to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility.

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### **9.3 Acceptance and Continuance of Client Relationships and Specific Engagements**

#### *Competence, Capabilities, and Resources (Ref: Para. 26(a))*

- A18. 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 the 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 competence and capabilities; 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.

#### *Integrity of Client (Ref: Para. 26(c))*

- A19. 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, 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. 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.

- A20. 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.

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### *Continuance of Client Relationship (Ref: Para. 27(a))*

A21. 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.

### *Withdrawal (Ref: Para. 28)*

A22. 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 Organizations (Ref: Para. 26 – 28)*

A 23. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and specific engagements as set out paragraphs 26-28 and A18-A22 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.

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### **9.4 Human Resources (Ref: Para. 29)**

A24. 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.

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.

A25. 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.

A26. The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.

A27. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.

A28. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a firm may take in developing and maintaining competence and commitment to ethical principles include:

- Making personnel aware of the firm's expectations regarding performance and ethical principles;

- Providing personnel with evaluation of, and counseling on, performance, progress and career development; and

- Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.



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### *Considerations Specific to Smaller Firms*

A29. 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*

Engagement Partners (Ref: Para. 30)

A30. 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.

Engagement Teams (Ref: Para. 31)

A31. 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

Understanding of the firm's quality control policies and procedures.

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## **9.5 Engagement Performance**

*Consistency in the Quality of Engagement Performance* (Ref: Para. 32(a))

A32. The firm promotes consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:

How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.

Processes for complying with applicable engagement standards.

Processes of engagement supervision, staff training and coaching.

Methods of reviewing the work performed, the significant judgments made and the form of report being issued.

Appropriate documentation of the work performed and of the timing and extent of the review.

Processes to keep all policies and procedures current.

A33. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.  
*Supervision* (Ref: Para. 32(b))

A34. 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.

*Review* (Ref: Para. 32(c))

A35. A review consists of consideration of whether:

The work has been performed in accordance with professional standards and regulatory and legal requirements;

Significant matters have been raised for further consideration;

Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

There is a need to revise the nature, timing and extent of work performed;

The work performed supports the conclusions reached and is appropriately documented;

The evidence obtained is sufficient and appropriate to support the report; and

The objectives of the engagement procedures have been achieved.

*Consultation (Ref: Para. 34)*

A36. Consultation includes discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise.

A37. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the firm's policies and procedures helps to promote a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.

A38. 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.

A39. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

The issue on which consultation was sought; and

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

*Considerations Specific to Smaller Firms*

A40. A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by:

Other firms;

Professional and regulatory bodies; or

Commercial organizations that provide relevant quality control services.

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

*Engagement Quality Control Review*

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### Criteria for an Engagement Quality Control Review (Ref: Para. 35(b))

A41. 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.

Whether laws or regulations require an engagement quality control review.

### Nature, Timing and Extent of the Engagement Quality Control Review (Ref: Para. 36-37)

A42. 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.

A43. 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.

A44. 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.

### Engagement Quality Control Review of a Listed Entity (Ref: Para. 38)

A45. Other matters relevant to evaluating the significant judgments 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.

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 on the circumstances, may also be applicable for engagement quality control reviews for audits of the 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 organizations

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A46. Although not referred to as listed entities, as described in paragraph A16, 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*

#### Sufficient and Appropriate Technical Expertise, Experience and Authority (Ref: Para. 39(a))

A47. 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.

#### Consultation with the Engagement Quality Control Reviewer (Ref: Para. 39(b))

A48. 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 firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

#### Objectivity of the Engagement Quality Control Reviewer (Ref: Para. 40)

A49. The firm 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.

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### Considerations specific to smaller firms

A50. 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 firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the requirements in paragraphs 39-41 and guidance in paragraphs A47-A48 apply.

### Considerations specific to public sector audit organizations

A51. 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.

### *Differences of Opinion (Ref: Para. 43)*

A52. 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.

A53. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

### *Engagement Documentation*

#### Completion of the Assembly of Final Engagement Files (Ref: Para. 45)

A54. 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 45 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.

A55. Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

#### Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation (Ref: Para. 46)

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A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

A57. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid unauthorized alteration or loss of engagement documentation may include those that:

Enable the determination of when and by whom engagement documentation was created, changed or reviewed;

Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet;

Prevent unauthorized changes to the engagement documentation; and

Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

A58. 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 authorized users.

Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.

Procedures for properly distributing engagement documentation to the team members at the start of the engagement, processing it during engagement, and collating it at the end of engagement.

Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

A59. 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.

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

### Retention of Engagement Documentation (Ref: Para. 47)

- A60. 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.
- A61. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- A62. Procedures that the firm adopts for retention of engagement documentation include those that enable the requirements of paragraph 47 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; and
  - Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

### Ownership of engagement documentation

- A63. 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.



## **9.6 Monitoring**

*Monitoring the Firm's Quality Control Policies and Procedures* (Ref: Para. 48)

A64. 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.

A65. Ongoing consideration and evaluation of the system of quality control include matters such as the following:

• Analysis of:

o New developments in professional standards and regulatory and legal requirements, and how they are reflected in the firm's policies and procedures where appropriate;

o Written confirmation of compliance with policies and procedures on independence;  
o Continuing professional development, including training; and

o 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.

A66. Inspection cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following:

The size of the firm.

The number and geographical location of offices.

The results of previous monitoring procedures.

The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them).

The nature and complexity of the firm's practice and organization.

The risks associated with the firm's clients and specific engagements.

- A67. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the firm may take into account the scope or conclusions of an independent external inspection program. However, an independent external inspection program does not act as a substitute for the firm's own internal monitoring program.

#### Considerations Specific to Smaller Firms

- A68. 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 firm to carry out engagement inspections and other monitoring procedures. Alternatively, the firm may establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.

#### *Communicating Deficiencies* (Ref: Para. 50)

- A69. The reporting of identified deficiencies to individuals other than the relevant engagement partners need not include an identification of the specific engagements concerned, although there may be cases where such identification may be necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.

#### *Complaints and Allegations*

##### Source of Complaints and Allegations (Ref: Para. 55)

- A70. 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.

##### Investigation Policies and Procedures (Ref: Para. 56)

- A71. 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.

#### Considerations specific to smaller firms

- A72. 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 suitably qualified external person or another firm to carry out the investigation into complaints and allegations.

**Documentation of the System of Quality Control (Ref: Para. 57)**

A73. 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 organization.

For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections.

A74. Appropriate documentation relating to monitoring includes, for example:

- Monitoring procedures, including the procedure for selecting completed engagements to be inspected.
- A record of the evaluation of:
  - o Adherence to professional standards and regulatory and legal requirements;
  - o Whether the system of quality control has been appropriately designed and effectively implemented; and
  - o 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.
- 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*

A75. Smaller firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.

## **Appendix 1**

### **Glossary of terms**

**“ABWA”** – The Association of Accountancy Bodies in West Africa

**“Best endeavors”** – A member body has used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.

**“CEC”** – Code of Ethics and Conduct.

**“CPD”** – Continuing Professional Development.

**"Engagement partner"** – the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

**"Engagement quality control review"** – a process designed to provide an objective evaluation, before the auditor's report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the auditor's report.

**"Engagement quality control reviewer"** – a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the auditor's report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the auditor's report.

**"Engagement team"** – all personnel performing an audit engagement, including any experts contracted by the firm in connection with that audit engagement.

**"Firm"** – a sole practitioner, partnership, corporation or other entity of professional *accountants*.

**“IFAC”** – International Federation of Accountants.

**“ISA”** – International Standards on Auditing.

**“ISQC1”** – International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

**“Licensing Authority (LA)”** – The local body that gives the audit firm the licence to operate in the specific country.

**"Listed entity"\*** – an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

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

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**"Network firm"\*** – an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

**"Partner"** – any individual with authority to bind the firm with respect to the performance of a professional services engagement.

**"Personnel"** – partners and staff.

**"PII"** – Professional indemnity insurance.

**"Practitioner"** – a member of ABWA member body, limited to either individuals who are partners in firms, or firms;

**"Professional standards"** – IAASB Engagement Standards, as defined in the IAASB's "Preface to the International Standard on Quality Control, Auditing, Assurance and Related Services," and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code and relevant national ethical requirements.

**"QA"** – Quality Assurance.

**"QCM"** – Quality Control Manual

**"QCR"** – Quality Control Reviewer

**"QRP"** – Quality Review Partner

**"Quality assurance review"** – a review to determine whether the member (i) is subject to (partner) or has (firm) an adequate system of quality control, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements;

**"Quality assurance review team"** – individuals (including the quality assurance review team leader) who a member body or member employs or engages to perform a quality assurance review;

**"Quality assurance review team leader"** – an experienced professional accountant who a member body or member employs or engages to lead a quality assurance review;

**"Reasonable assurance"** – in the context of this ISA, a high, but not absolute, level of assurance.

**"Review"** – in relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

**"Staff"** – professionals, other than partners, including any experts the firm employs.

**"Suitably qualified external person"** – an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits of historical financial information or of an organization that provides relevant quality control services.

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“**SMOs**” – Statements of Membership Obligations.

“**System of quality control**” – policies designed to provide a firm with reasonable assurance that (i) the firm and its personnel comply with professional standards and regulatory and legal requirements, and (ii) reports issued by the firm or partners are appropriate in the circumstances, and the procedures necessary to implement and monitor compliance with those policies.

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### Appendix 2

Example documentation of risk and quality by practitioners - Leadership responsibility for quality

RISK AND CONTROL SCHEDULE				
Quality Element: LEADERSHIP'S RESPONSIBILITY FOR QUALITY				
Quality requirements		Risk identification	Polices and processes	Key controls and monitoring procedures
Standard / paragraph reference	Requirement	Risks	Policies and procedures	Monitoring and key control procedures
<i>ISQC 1</i>				
18	<p>The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements.</p> <p>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</p>	<p>The person who is assigned the ultimate responsibility for the firm's system of quality control may not have the authority, experience or skills to carry out this role effectively.</p> <p>Assurance team members will not recognize the importance that the firm places on audit quality which, in turn, could lead to a culture in which audit failure could occur.</p>	<i>e.g. Local policy 3xx (name of policy), which (summarise the requirements)}</i>	
19	<p>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.</p>	<p>The individual assigned responsibility does not have the appropriate experience, ability or authority and therefore fails to complete the responsibilities associated with the role properly.</p>		
<i>Local regulations or standards</i>				
<i>{e.g. Local Act or law}</i>	<i>{e.g. It is illegal to .....}</i>	<i>{e.g. non-compliance with the local Act is a criminal offence}</i>		

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**Appendix 3**

**Template - Testing Operating Effectiveness of Controls**

Standard/ Paragraph Ref. # i.e. ISQC 1 paragraph	Member firm Compliance Documentation (e.g. policy reference )	Monitoring and Key Control Procedure (from Risk & control Schedule)	Testing Procedures (or justification for no testing if applicable)	Testing Results (e.g. insert results or reference test results to another worksheet)	Conclusion on Effectiveness (Has the testing identified any issues in the operating effectiveness of the control that may result in the risk not being mitigated.)
			<p><b>Test description</b> (how the control was tested e.g. through inquiry, observation, examination or reperformance ):</p> <p><b>Frequency</b> (how often a control operates or is performed):</p> <p><b>Sample size to be adopted:</b></p> <p><b>Sample selection details:</b> (the transaction number / code / name of the report being tested or The name and title of the individual interviewed or who provided the test evidence)</p> <p><b>Nature of test</b> [Observation, Inquiry, Inspection, Reperformance]:</p> <p><b>Responsible Team/Group</b> (team /individual responsible for undertaking the control):</p>		



## Appendix 4

### Extent of testing

The number of controls to test may be determined by various factors including:

- The significance of the risk addressed by the control
- The importance of the control to addressing the risk (key controls)
- The degree to which the control is cumulative
- The risk that observation of controls and answers to inquiries may not accurately represent the operation of the controls

The recommended sample sizes are based on the frequency of the control:

Frequency of control	Assumed population of controls occurrences	Number of items to test
Annual	1	1
Quarterly	4	2
Monthly	12	2 to 5
Weekly	52	5 or 10 or 15
Daily	250	20 or 30 or 40
Multiple times per day	Over 250	25 or 30 or 45 or 60

A **key control** is a control providing the most effective or efficient evidence designed to help comply with regulatory requirements (such as ISQC1) and relevant policies which are in place to mitigate significant risks to achieving quality.

In a proper selection of key controls, teams should begin by asking "which controls the firm could not live without"; then address the relevant quality control policies and procedures in place based on the components identified in ISQC1 i.e. Leadership, Ethical Requirements (including Independence), Acceptance & Continuance, Human Resources, Engagement Performance (including Quality control review) and Monitoring.

Teams should try to achieve the right balance in testing of preventative and detective controls and always consider where a risk of non-compliance could exist, however, it is not a requirement that both preventative and detective controls be tested for all key controls.

### Information Technology General Controls (ITGCs)

ITGCs may contribute indirectly to the compliance with many of a Member Firm's policies and procedures. ITGCs facilitate the continued effective operation of application controls and automated procedures that depend on computer processes. ITGCs are also important when manual controls depend on application-generated information. As the ITGCs are general controls and not related to an individual functional area, a separate section can be created to allow Member Firms to document the results of any testing performed.

**Focus Groups and Staff Interviews**

Member Firms may consider as a testing approach the need for conducting interviews with staff members. If this is considered necessary to complete the testing phases, then review the sample guidance and document the results in a work paper which can be clearly linked to the individual functional areas using the testing template.

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**Appendix 5**

**TEMPLATE - AUDIT QUALITY REMEDIATION PLAN**

Area for improvement (area tested):									
Issue / Facts	Root Cause of the issue	Assessment / Priority (High, Medium or Low)	Proposed resolution	Processes for remediation	Who is responsible	When / Deadline / Target output or measure	Who will validate the remediation	How and when	Status of remediation update

**MONITOR'S REPORT**

**[MONITOR'S NAME]**

**[*Date of Issue*]**

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## **Introduction**

### **Overview**

ISQC 1.48 states:

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, review of at least one completed engagement for each engagement partner;
- (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
- (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (Ref: Para. A64-A68).

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**Monitor's Questionnaire**

The Monitor's Report will consist primarily of answers to the following questions.

For each of the questions with a "No" answer, please include your observations, conclusions, and recommendations (if appropriate) in your report to the partner(s) responsible for quality control.

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

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12. Is there evidence that the partner(s) responsible for the system of quality control in the firm have communicated at least annually to appropriate partners and others regarding the monitoring procedures performed over the past year, conclusions drawn from such procedures, and a description of any systemic, repetitive or other significant deficiencies found and action taken to resolve such deficiencies?

Yes	No	N/A	Comments

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**Monitor's Report**

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

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

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

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

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

The management of the system of quality control in the firm appears to [*be/not to be*] assigned to a partner or other person with sufficient and appropriate experience and authority.

(Insert explanation if the conclusion is negative.)

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1. The firm [*does/does not*] have a written quality control manual (QCM) and/or quality control policies and procedures.

(Insert explanation offered by partner(s) responsible for the system of quality control, if a written QCM is incomplete.)

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

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

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

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

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

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

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

Insert details of each such deficiency found.

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

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

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

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

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9. I have reported all deficiencies found in the course of my review to the partner(s) responsible for the system of quality control in the firm.
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10. For files reviewed, I have completed the appropriate file review checklists and these are attached to this report as appendices.
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11. Overall rating.
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