

INTERNATIONAL STANDARD ON QUALITY CONTROL 1

QUALITY CONTROL FOR FIRMS THAT
PERFORM AUDITS AND REVIEWS OF
HISTORICAL FINANCIAL INFORMATION,
AND OTHER ASSURANCE AND RELATED
SERVICE ENGAGEMENTS

(Paragraph comparison of ISQC 1
(Redrafted) with current ISQC 1)

Effective as of January 1 2010



Malaysian Institute of Accountants

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This document has been prepared to assist audit practitioners to map, by paragraphs and to identify changes as a result of the issuance of International Standard on Quality Control (ISQC) 1 (Redrafted) pursuant to the Clarity Project to supersede the current ISQC 1. The systems of quality control in compliance with ISQC 1 (Redrafted) are required to be established by January 1, 2010. The mapping highlights new definitions, points and paragraphs added or removed as a result of the Clarity Project. Part I of this document comprises of paragraph mapping and Part II of this paragraph comprises of paragraphs that have been excluded from the ISQC 1 (Redrafted).

PART I – COMPARISON OF PARAGRAPHS

ISQC 1 (Redrafted)	ISQC 1
<p>Explanatory Foreword</p> <p>The Council of the Malaysian Institute of Accountants has approved this standard in March 2009 for publication. This standard should be read in conjunction with Preface to Approved Standards on Auditing; Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services; Glossary of Terms and International Framework for Assurance Engagements.</p> <p>The status of International Standards on Auditing is set out in the Council's statement Preface to Malaysian Approved Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.</p> <p>Applicability</p> <p>International Standards on Quality Control (ISQCs) are to be applied to all services falling under the IAASB's Engagement Standards.</p> <p>The Public Sector Perspective set out at the end of the standard, serves as guidance to members in the audit of public sector financial statements in the application of this standard.</p> <p>Notes and Exceptions</p> <p>The Council wishes to highlight that where reference is made in the Standard to the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, it should be deemed as reference to the Malaysian Institute of Accountants' By Laws (On Professional Conduct and Ethics).</p>	<p>Explanatory Foreword</p> <p>The Council of the Malaysian Institute of Accountants has approved this standard in July 2005 for publication. This standard should be read in conjunction with Preface to Approved Standards on Auditing; Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services; Glossary of Terms and International Framework for Assurance Engagements.</p> <p>The status of International Standards on Quality Control is set out in the Council's statement Preface to Malaysian Approved Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.</p> <p>Applicability</p> <p>International Standards on Quality Control (ISQCs) are to be applied to all services falling under the IAASB's Engagement Standards</p> <p>The Public Sector Perspective set out at the end of the standard, serves as guidance to members in the audit of public sector financial statements in the application of this standard.</p> <p>Notes and Exceptions</p> <p>The Council wishes to highlight that where reference is made in the Standard to the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, it should be deemed as reference to the Malaysian Institute of Accountants' By Laws (On Professional Conduct and Ethics).</p> <p>The Council wishes to draw members' attention to paragraph 73j of the amended ISQC 1 as a result of the conforming amendments of ISA 230 (Revised). The Council wishes to highlight that pursuant to the period of limitation on actions under contract and tort, the</p>

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<p>Introduction</p> <p>Scope of this ISQC</p> <p>1. This International Standard on Quality Control (ISQC) deals with a firm’s responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.</p> <p>2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220, for example, deals with quality control procedures for audits of financial statements.</p> <p>3. A system of quality control consists of policies designed to achieve the objective set out in paragraph 11 and the procedures necessary to implement and monitor compliance with those policies.</p> <p>Authority of this ISQC</p> <p>4. This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.</p> <p>5. This ISQC contains the objective of the firm in following the ISQC, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 8, and introductory material that provides</p>	<p>retention period for an audit engagement should not be shorter than six years from the date of the auditor’s report, or, if later, the date of the group auditor’s report.</p> <p>Introduction</p> <p>1. The purpose of this International Standard on Quality Control (ISQC) is to establish basic principles and essential procedures and to provide guidance regarding a firm’s responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. This ISQC is to be read in conjunction with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the Code).</p> <p>2. Additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements are set out in other pronouncements of the International Auditing and Assurance Standards Board (IAASB). ISA 220, “Quality Control for Audits of Historical Financial Information,” for example, establishes standards and provides guidance on quality control procedures for audits of historical financial information.</p> <p>4. A system of quality control consists of policies designed to achieve the objectives set out in paragraph 3 and the procedures necessary to implement and monitor compliance with those policies.</p> <p>Authority of this ISQC</p> <p>5. This ISQC applies to all firms. The nature of the policies and procedures developed by individual firms to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.</p> <p>Not available</p>

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<p>context relevant to a proper understanding of the ISQC, and definitions.</p>	
<p>6. The objective provides the context in which the requirements of this ISQC are set, and is intended to assist the firm in:</p> <ul style="list-style-type: none"> • Understanding what needs to be accomplished; and • Deciding whether more needs to be done to achieve the objective. 	<p>Not available</p>
<p>7. The requirements of this ISQC are expressed using “shall.”</p>	<p>Not available</p>
<p>8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:</p> <ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover; and • Include examples of policies and procedures that may be appropriate in the circumstances. 	<p>Not available</p>
<p>While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQC. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.</p>	
<p>9. This ISQC includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the <i>Handbook of International Standards on Auditing and Quality Control</i> published by IFAC includes the terms defined in this ISQC. It also includes descriptions of other terms found in this ISQC to assist in common and consistent interpretation and translation.</p>	<p>Not available</p>
<p>Effective Date</p>	<p>Effective Date</p>
<p>10. Systems of quality control in compliance with this</p>	<p>Systems of quality control in compliance with this ISQC</p>

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<p>ISQC are required to be established by January 1, 2010.</p> <p>Objective</p> <p>11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and (b) Reports issued by the firm or engagement partners are appropriate in the circumstances. <p>Definitions</p> <p>12. In this ISQC, the following terms have the meanings attributed below:</p> <ul style="list-style-type: none"> (a) Date of report – The date selected by the practitioner to date the report. (b) Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used). (c) Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. (d) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required. (e) Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report. (f) Engagement team – All partners and staff 	<p>are required to be established by July 1, 2006.</p> <p>Objective</p> <p>3. The firm <u>should</u> 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 reports issued by the firm or engagement partners are appropriate in the circumstances.</p> <p>Definitions</p> <p>6. In this ISQC, the following terms have the meanings attributed below:</p> <p>Not available</p> <ul style="list-style-type: none"> (a) “Engagement documentation” – the record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used). The documentation for a specific engagement is assembled in an engagement file; (b) “Engagement partner” – the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body; (c) “Engagement quality control review” – a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report; (d) “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 report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report; (e) “Engagement team” – all personnel performing

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<p>performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.</p> <p>(g) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.</p> <p>(h) Inspection – In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures.</p> <p>(i) 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.</p> <p>(j) Monitoring – A process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.</p> <p>(k) Network firm – A firm or entity that belongs to a network.</p> <p>(l) Network – A larger structure:</p> <p>(i) That is aimed at cooperation, and</p> <p>(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.</p> <p>(m) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.</p> <p>(n) Personnel – Partners and staff.</p> <p>(o) Professional standards – IAASB Engagement Standards, as defined in the IAASB’s <i>Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services</i>, and relevant ethical requirements.</p> <p>(p) Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance.</p>	<p>an engagement, including any experts contracted by the firm in connection with that engagement;</p> <p>(f) “Firm” – a sole practitioner, partnership, corporation or other entity of professional accountants;</p> <p>(g) “Inspection” – in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures;</p> <p>(h) “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;</p> <p>(i) “Monitoring” – a process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively;</p> <p>(j) “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;</p> <p>Not available</p> <p>(k) “Partner” – any individual with authority to bind the firm with respect to the performance of a professional services engagement;</p> <p>(l) “Personnel” – partners and staff;</p> <p>(m) “Professional standards” – IAASB Engagement Standards, as defined in the IAASB’s “Preface to the International Standards 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;</p> <p>(n) “Reasonable assurance” – in the context of this ISQC, a high, but not absolute, level of</p>

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<p>(q) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Federation of Accountants’ Code of Ethics for Professional Accountants (IFAC Code) together with national requirements that are more restrictive.</p> <p>(r) Staff – Professionals, other than partners, including any experts the firm employs.</p> <p>(s) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.</p>	<p>assurance; Not available</p> <p>(o) “Staff” – professionals, other than partners, including any experts the firm employs; and (p) “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 and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.</p>
<p>Requirements</p>	
<p>Applying, and Complying with, Relevant Requirements</p>	
<p>13. Personnel within the firm responsible for establishing and maintaining the firm’s system of quality control shall have an understanding of the entire text of this ISQC, including its application and other explanatory material, to understand its objective and to apply its requirements properly.</p>	<p>Not available</p>
<p>14. The firm shall comply with each requirement of this ISQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided in respect of audits and reviews of financial statements, and other assurance and related services engagements. (Ref: Para. A1)</p>	<p>Not available</p>
<p>15. The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this ISQC to meet the stated objective.</p>	<p>Not available</p>

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<p>Elements of a System of Quality Control</p> <p>16. The firm <u>shall</u> establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Relevant ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>17. The firm <u>shall</u> document its policies and procedures and communicate them to the firm’s personnel. (Ref: Para. A2-A3)</p> <p>Leadership Responsibilities for Quality within the Firm</p> <p>18. The firm <u>shall</u> establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements. Such policies and procedures <u>shall</u> require the firm’s chief executive officer (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent) to assume ultimate responsibility for the firm’s system of quality control. (Ref: Para. A4-A5)</p> <p>19. The firm <u>shall</u> establish policies and procedures such that any person or persons assigned operational responsibility for the firm’s system of quality control by the firm’s chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6)</p> <p>Relevant Ethical Requirements</p> <p>20. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: Para. A7-A10)</p>	<p>Elements of a System of Quality Control</p> <p>7. The firm’s system of quality control <u>should</u> include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>8. The quality control policies and procedures <u>should</u> be documented and communicated to the firm’s personnel. Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.</p> <p>Leadership Responsibilities for Quality within the Firm</p> <p>9. The firm <u>should</u> establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures <u>should</u> 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>12. Any person or persons assigned operational responsibility for the firm’s quality control system by the firm’s chief executive officer or managing board of partners <u>should</u> have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.</p> <p>Ethical Requirements</p> <p>14. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.</p>

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<p>Independence</p> <p>21. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures <u>shall</u> enable the firm to: (Ref: Para. A10)</p> <p>(a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and</p> <p>(b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.</p> <p>22. Such policies and procedures <u>shall</u> require: (Ref: Para. A10)</p> <p>(a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;</p> <p>(b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and</p> <p>(c) The accumulation and communication of relevant information to appropriate personnel so that:</p> <p>(i) The firm and its personnel can readily determine whether they satisfy independence requirements;</p> <p>(ii) The firm can maintain and update its records relating to independence; and</p> <p>(iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.</p> <p>23. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures <u>shall</u> include requirements for: (Ref: Para. A10)</p> <p>(a) Personnel to promptly notify the firm of independence breaches of which they become aware;</p> <p>(b) The firm to promptly communicate identified</p>	<p>Independence</p> <p>18. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code and national ethical requirements. Such policies and procedures <u>should</u> enable the firm to:</p> <p>(a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and</p> <p>(b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.</p> <p>19. Such policies and procedures <u>should</u> require:</p> <p>(a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;</p> <p>(b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and</p> <p>(c) The accumulation and communication of relevant information to appropriate personnel so that:</p> <p>(i) The firm and its personnel can readily determine whether they satisfy independence requirements;</p> <p>(ii) The firm can maintain and update its records relating to independence; and</p> <p>(iii) The firm can take appropriate action regarding identified threats to independence.</p> <p>20. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures <u>should</u> include requirements for:</p> <p>(a) All who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware;</p> <p>(b) The firm to promptly communicate identified</p>

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<p>breaches of these policies and procedures to:</p> <ul style="list-style-type: none"> (i) The engagement partner who, with the firm, needs to address the breach; and (ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and <p>(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.</p> <p>24. At least annually, the firm <u>shall</u> obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A10-A11)</p> <p>25. The firm <u>shall</u> establish policies and procedures: (Ref: Para. A10)</p> <ul style="list-style-type: none"> (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12-A17) 	<p>breaches of these policies and procedures to:</p> <ul style="list-style-type: none"> (i) The engagement partner who, with the firm, needs to address the breach; and (ii) Other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action; and <p>(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it <u>should</u> take further action.</p> <p>23. At least annually, the firm <u>should</u> obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the IFAC Code and national ethical requirements.</p> <p>25. 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 a threat. Accordingly, the firm <u>should</u> establish policies and procedures:</p> <ul style="list-style-type: none"> (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the IFAC Code and national ethical requirements that are more restrictive.
<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>26. The firm <u>shall</u> establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:</p> <ul style="list-style-type: none"> (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: Para. A18, A23) (b) Can comply with relevant ethical requirements; and (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. (Ref: Para. A19-A20, A23) 	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>28. The firm <u>should</u> establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will only undertake or continue relationships and engagements where it:</p> <ul style="list-style-type: none"> (a) Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity; (b) Is competent to perform the engagement and has the capabilities, time and resources to do so; and (c) Can comply with ethical requirements.

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<p>27. Such policies and procedures <u>shall</u> require:</p> <p>(a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (Ref: Para. A21, A23)</p> <p>(b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.</p> <p>(c) If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.</p> <p>28. The firm <u>shall</u> establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures <u>shall</u> include consideration of:</p> <p>(a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and</p> <p>(b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship. (Ref: Para. A22-23)</p> <p>Human Resources</p> <p>29. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:</p> <p>(a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p>	<p>The firm <u>should</u> obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it <u>should</u> document how the issues were resolved.</p> <p>32. The firm also considers whether accepting an engagement from a new or an existing client may give rise to an actual or perceived conflict of interest. Where a potential conflict is identified, the firm considers whether it is appropriate to accept the engagement.</p> <p>34. Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship <u>should</u> include consideration of:</p> <p>(a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and</p> <p>(b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship.</p> <p>Human Resources</p> <p>36. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement</p>

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<p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A24-A29)</p> <p>Assignment of Engagement Teams</p> <p>30. The firm <u>shall</u> assign responsibility for each engagement to an engagement partner and <u>shall</u> establish policies and procedures requiring that:</p> <p>(a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;</p> <p>(b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and</p> <p>(c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30)</p> <p>31. The firm <u>shall</u> also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:</p> <p>(a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A31)</p> <p>Engagement Performance</p> <p>32. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures <u>shall</u> include:</p> <p>(a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32-A33)</p> <p>(b) Supervision responsibilities; and (Ref: Para. A34)</p> <p>(c) Review responsibilities. (Ref: Para. A35)</p> <p>33. The firm's review responsibility policies and procedures <u>shall</u> be determined on the basis that work of less experienced team members is reviewed by more experienced engagement team members.</p>	<p>partners to issue reports that are appropriate in the circumstances.</p> <p>Assignment of Engagement Teams</p> <p>42. The firm <u>should</u> assign responsibility for each engagement to an engagement partner. The firm <u>should</u> establish policies and procedures requiring that:</p> <p>(a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;</p> <p>(b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and</p> <p>(c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.</p> <p>44. The firm <u>should</u> also assign appropriate staff with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p> <p>Engagement Performance</p> <p>46. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances.</p> <p>50. Review responsibilities are determined on the basis that more experienced engagement team members, including the engagement partner, review work performed by less experienced team members. Reviewers consider whether:</p> <p>(a) The work has been performed in accordance with professional standards and regulatory and legal</p>

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<p>Consultation</p> <p>34. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and (d) Conclusions resulting from consultations are implemented. (Ref: Para. A36-A40) <p>Engagement Quality Control Review</p> <p>35. The firm <u>shall</u> establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures <u>shall</u>:</p> <ul style="list-style-type: none"> (a) Require an engagement quality control review for all audits of financial statements of listed entities; (b) Set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements <u>shall</u> be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41) (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b). 	<p>requirements;</p> <ul style="list-style-type: none"> (b) Significant matters have been raised for further consideration; (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; (d) There is a need to revise the nature, timing and extent of work performed; (e) The work performed supports the conclusions reached and is appropriately documented; (f) The evidence obtained is sufficient and appropriate to support the report; and (g) The objectives of the engagement procedures have been achieved. <p>Consultation</p> <p>51. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of such consultations are documented; and (d) Conclusions resulting from consultations are documented and implemented. <p>Engagement Quality Control Review</p> <p>60. The firm <u>should</u> establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures <u>should</u>:</p> <ul style="list-style-type: none"> (a) Require an engagement quality control review for all audits of financial statements of listed entities; (b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements <u>should</u> be evaluated to determine whether an engagement quality control review <u>should</u> be performed; and (c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).

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<p>36. The firm <u>shall</u> establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures <u>shall</u> require that the engagement report not be dated until the completion of the engagement quality control review. (Ref: Para. A42-A43)</p> <p>37. The firm <u>shall</u> establish policies and procedures to require the engagement quality control review to include:</p> <ol style="list-style-type: none"> (a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements or other subject matter information and the proposed report; (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44) <p>38. For audits of financial statements of listed entities, the firm <u>shall</u> establish policies and procedures to require the engagement quality control review to also include consideration of the following:</p> <ol style="list-style-type: none"> (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A45-A46) 	<p>61. The firm's policies and procedures <u>should</u> require the completion of the engagement quality control review before the report is issued.</p> <p>63. The firm <u>should</u> establish policies and procedures setting out:</p> <ol style="list-style-type: none"> (a) The nature, timing and extent of an engagement quality control review; (b) Criteria for the eligibility of engagement quality control reviewers; and (c) Documentation requirements for an engagement quality control review. <p>Nature, Timing and Extent of the Engagement Quality Control Review</p> <p>64. An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and, in particular, consideration of whether the report is appropriate. It also involves a review of selected working papers relating to the significant judgments the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.</p> <p>65. An engagement quality control review for audits of financial statements of listed entities includes considering the following:</p> <ul style="list-style-type: none"> • The engagement team's evaluation of the firm's independence in relation to the specific engagement. • Significant risks identified during the engagement and the responses to those risks. • Judgments made, particularly with respect to materiality and significant risks. • Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations. • 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. • Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.

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<p>Criteria for the Eligibility of Engagement Quality Control Reviewers</p> <p>39. The firm <u>shall</u> establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:</p> <p>(a) The technical qualifications required to perform the role, including the necessary experience and authority; and (Ref: Para. A47)</p> <p>(b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer’s objectivity. (Ref: Para. A48)</p> <p>40. The firm <u>shall</u> establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. (Ref: Para. A49- A51)</p> <p>41. The firm’s policies and procedures <u>shall</u> provide for the replacement of the engagement quality control reviewer where the reviewer’s ability to perform an objective review may be impaired.</p>	<ul style="list-style-type: none"> • The appropriateness of the report to be issued. <p>Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.</p> <p>Criteria for the Eligibility of Engagement Quality Control Reviewers</p> <p>68. The firm’s policies and procedures <u>should</u> address the appointment of engagement quality control reviewers and establish their eligibility through:</p> <p>(a) The technical qualifications required to perform the role, including the necessary experience and authority; and</p> <p>(b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer’s objectivity.</p> <p>70. The firm’s policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:</p> <p>(a) Is not selected by the engagement partner;</p> <p>(b) Does not otherwise participate in the engagement during the period of review;</p> <p>(c) Does not make decisions for the engagement team; and</p> <p>(d) Is not subject to other considerations that would threaten the reviewer’s objectivity.</p> <p>71. The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer’s eligibility to perform the role. Where the nature and extent of the consultations become significant, however, 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 is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The firm’s policies provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired.</p>

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<p>Documentation of the Engagement Quality Control Review</p> <p>42. The firm <u>shall</u> establish policies and procedures on documentation of the engagement quality control review which require documentation that:</p> <ul style="list-style-type: none"> (a) The procedures required by the firm’s policies on engagement quality control review have been performed; (b) The engagement quality control review has been completed on or before the date of the report; and (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate. <p>Differences of Opinion</p> <p>43. The firm <u>shall</u> establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A52-A53)</p> <p>44. Such policies and procedures <u>shall</u> require that:</p> <ul style="list-style-type: none"> (a) Conclusions reached be documented and implemented; and (b) The report not be dated until the matter is resolved. <p>Engagement Documentation</p> <p>Completion of the Assembly of Final Engagement Files</p> <p>45. The firm <u>shall</u> establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. (Ref: Para. A54-A55)</p> <p>Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation</p> <p>46. The firm <u>shall</u> establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A56-A59)</p>	<p>Documentation of the Engagement Quality Control Review</p> <p>73. Policies and procedures on documentation of the engagement quality control review <u>should</u> require documentation that:</p> <ul style="list-style-type: none"> (a) The procedures required by the firm’s policies on engagement quality control review have been performed; (b) The engagement quality control review has been completed before the report is issued; and (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate. <p>Differences of Opinion</p> <p>57. The firm <u>should</u> establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached <u>should</u> be documented and implemented.</p> <p>67. Where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer’s satisfaction, the report is not issued until the matter is resolved by following the firm’s procedures for dealing with differences of opinion.</p> <p>Engagement Documentation</p> <p>Completion of the Assembly of Final Engagement Files</p> <p>73a. The firm <u>should</u> establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.</p> <p>Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation</p> <p>73d. The firm <u>should</u> establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.</p>

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<p>Retention of Engagement Documentation</p> <p>47. The firm <u>shall</u> establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. (Ref: Para. A60-A63)</p> <p>Monitoring</p> <p><i>Monitoring the Firm's Quality Control Policies and Procedures</i></p> <p>48. The firm <u>shall</u> 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 <u>shall</u>:</p> <ul style="list-style-type: none"> (a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner; (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (Ref: Para. A64-A68) <p><i>Evaluating, Communicating and Remediating Identified Deficiencies</i></p> <p>49. The firm <u>shall</u> evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:</p> <ul style="list-style-type: none"> (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action. <p>50. The firm <u>shall</u> communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: Para. A69)</p>	<p>Retention of Engagement Documentation</p> <p>73i. The firm <u>should</u> establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.</p> <p>Monitoring</p> <p>74. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures <u>should</u> include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.</p> <p>76. The firm entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. Monitoring of the firm's system of quality control is performed by competent individuals and covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control.</p> <p>81. The firm <u>should</u> evaluate the effect of deficiencies noted as a result of the monitoring process and <u>should</u> determine whether they are either:</p> <ul style="list-style-type: none"> (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory and legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action. <p>82. The firm <u>should</u> communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.</p>

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<p>51. Recommendations for appropriate remedial actions for deficiencies noted <u>shall</u> include one or more of the following:</p> <ul style="list-style-type: none"> (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel; (b) The communication of the findings to those responsible for training and professional development; (c) Changes to the quality control policies and procedures; and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly. <p>52. The firm <u>shall</u> establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures <u>shall</u> require the firm to determine what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice.</p> <p>53. The firm <u>shall</u> communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. This communication <u>shall</u> be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated <u>shall</u> include the following:</p> <ul style="list-style-type: none"> (a) A description of the monitoring procedures performed. (b) The conclusions drawn from the monitoring procedures. (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. <p>54. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system, the</p>	<p>83. The firm's evaluation of each type of deficiency <u>should</u> result in recommendations for one or more of the following:</p> <ul style="list-style-type: none"> (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel; (b) The communication of the findings to those responsible for training and professional development; (c) Changes to the quality control policies and procedures; and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly. <p>84. Where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm <u>should</u> determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements. It <u>should</u> also consider obtaining legal advice.</p> <p>85. At least annually, the firm <u>should</u> communicate the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. Such communication <u>should</u> enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated <u>should</u> include the following:</p> <ul style="list-style-type: none"> (a) A description of the monitoring procedures performed. (b) The conclusions drawn from the monitoring procedures. (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies. <p>87. Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a</p>

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<p>firm's policies and procedures <u>shall</u> require that:</p> <p>(a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and</p> <p>(b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken,</p> <p>in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.</p> <p>Complaints and Allegations</p> <p>55. The firm <u>shall</u> establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <p>(a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and</p> <p>(b) Allegations of non-compliance with the firm's system of quality control.</p> <p>As part of this process, the firm <u>shall</u> establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (Ref: Para. A70)</p> <p>56. If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures or non-compliance with the firm's system of quality control by an individual or individuals are identified, the firm <u>shall</u> take appropriate actions as set out in paragraph 51. (Ref: Para. A71-A72)</p> <p>Documentation of the System of Quality Control</p> <p>57. The firm <u>shall</u> establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para. A73-A75)</p> <p>58. The firm <u>shall</u> establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring</p>	<p>monitoring system:</p> <p>(a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms;</p> <p>(b) The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and</p> <p>(c) Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.</p> <p>Complaints and Allegations</p> <p>89. The firm <u>should</u> establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <p>(a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and</p> <p>(b) Allegations of non-compliance with the firm's system of quality control.</p> <p>91. As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.</p> <p>93. Where the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or noncompliance with the firm's system of quality control by an individual or individuals, the firm takes appropriate action as discussed in paragraph 83.</p> <p>Documentation</p> <p>94. The firm <u>should</u> establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.</p> <p>97. The firm retains this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its</p>

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<p>procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.</p>	<p>system of quality control, or for a longer period if required by law or regulation.</p>
<p>59. The firm <u>shall</u> establish policies and procedures requiring documentation of complaints and allegations and the responses to them.</p>	<p>Not available</p>
<p>Application and Other Explanatory Material</p>	
<p>Applying, and Complying with, Relevant Requirements</p>	
<p>Considerations Specific to Smaller Firms (Ref: Para. 14)</p>	
<p>A1. This ISQC does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no staff. Requirements in this ISQC such as those for policies and procedures for the assignment of appropriate personnel to the engagement team (see paragraph 31), for review responsibilities (see paragraph 33), and for the annual communication of the results of monitoring to engagement partners within the firm (see paragraph 53) are not relevant in the absence of staff.</p>	<p>Not available</p>
<p>Elements of a System of Quality Control (Ref: Para. 17)</p>	<p>Elements of a System of Quality Control</p>
<p>A2. In general, communication of quality control policies and procedures to firm personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging firm personnel to communicate their views or concerns on quality control matters recognizes the importance of obtaining feedback on the firm's system of quality control.</p>	<p>8. The quality control policies and procedures <u>should</u> be documented and communicated to the firm's personnel. Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.</p>
<p>Considerations Specific to Smaller Firms</p>	
<p>A3. Documentation and communication of policies and procedures for smaller firms may be less formal and extensive than for larger firms.</p>	<p>Not available</p>
<p>Leadership Responsibilities for Quality within the Firm</p>	<p>Leadership Responsibilities for Quality within the Firm</p>
<p><i>Promoting an Internal Culture of Quality (Ref: Para. 18)</i></p>	
<p>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</p>	<p>10. 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</p>

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<p>from all levels of the firm's management that emphasize the firm's quality control policies and procedures, and the requirement to:</p> <ul style="list-style-type: none"> (a) Perform work that complies with professional standards and applicable legal and regulatory requirements; and (b) Issue reports that are appropriate in the circumstances. <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> (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. <p>Assigning Operational Responsibility for the Firm's System of Quality Control (Ref:Para. 19)</p> <p>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.</p> <p>Relevant Ethical Requirements</p> <p>Compliance with Relevant Ethical Requirements (Ref: Para. 20)</p>	<p>messages from all levels of the firm's management emphasizing the firm's quality control policies and procedures, and the requirement to:</p> <ul style="list-style-type: none"> (a) Perform work that complies with professional standards and regulatory and legal requirements; and (b) Issue reports that are appropriate in the circumstances. <p>Such actions and messages encourage a culture that recognizes and rewards high quality work. They may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They are 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.</p> <p>11. Of particular importance 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. Accordingly:</p> <ul style="list-style-type: none"> (a) The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed; (b) The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, are designed to demonstrate the firm's overriding commitment to quality; and (c) The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures. <p>13. Sufficient and appropriate experience and ability enables the responsible person or persons 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.</p> <p>Ethical Requirements</p>

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<p>A7. The IFAC Code establishes the fundamental principles of professional ethics, which include:</p> <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. <p>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.</p> <p>A9. The fundamental principles are reinforced in particular by:</p> <ul style="list-style-type: none"> • The leadership of the firm; • Education and training; • Monitoring; and • A process for dealing with non-compliance. <p>Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 20-25)</p> <p>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 Code³ defines the "firm" as:</p> <ul style="list-style-type: none"> (i) A sole practitioner, partnership or corporation of professional accountants; (ii) An entity that controls such parties through ownership, management or other means; and (iii) An entity controlled by such parties through ownership, management or other means. <p>The IFAC Code also provides guidance in relation to the terms "network" and "network firm."</p> <p>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.</p>	<p>15. Ethical requirements relating to audits and reviews of historical financial information, and other assurance and related services engagements ordinarily comprise Parts A and B of the Code together with national requirements that are more restrictive. The IFAC Code establishes the fundamental principles of professional ethics, which include:</p> <ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. <p>16. Part B of the IFAC Code includes a conceptual approach to independence for assurance engagements that takes into account threats to independence, accepted safeguards and the public interest.</p> <p>17. The firm's policies and procedures emphasize the fundamental principles, which are reinforced in particular by (a) the leadership of the firm, (b) education and training, (c) monitoring and (d) a process for dealing with non-compliance. Independence for assurance engagements is so significant that it is addressed separately in paragraphs 18-27 below. These paragraphs need to be read in conjunction with the IFAC Code.</p> <p>Not available</p>

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<p>Written Confirmation (Ref: Para. 24)</p> <p>A11. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating noncompliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.</p> <p>Familiarity Threat (Ref: Para. 25)</p> <p>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.</p> <p>A13. Determining appropriate criteria to address familiarity threat may include matters such as:</p> <ul style="list-style-type: none"> • 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. <p>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 partner⁴ after a predefined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.</p>	<p>24. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating noncompliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.</p> <p>25. 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 a threat. Accordingly, the firm <u>should</u> establish policies and procedures:</p> <ol style="list-style-type: none"> (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the IFAC Code and national ethical requirements that are more restrictive. <p>26. Using the same senior personnel on assurance engagements over a prolonged period may create a familiarity threat or otherwise impair the quality of performance of the engagement. Therefore, the firm establishes criteria for determining the need for safeguards to address this threat. In determining appropriate criteria, the firm considers such matters as (a) the nature of the engagement, including the extent to which it involves a matter of public interest, and (b) 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.</p> <p>27. 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 engagement partner after a predefined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.</p>

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<p>Considerations specific to public sector audit organizations</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>Competence, Capabilities, and Resources (Ref: Para. 26(a))</p> <p>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:</p> <ul style="list-style-type: none"> • Firm personnel have knowledge of relevant industries 	<p>Public Sector Perspective</p> <p>4. Similarly, the independence of public sector auditors may be protected by statutory measures, with the consequence that certain of the threats to independence of the nature envisaged by paragraphs 18-27 of ISQC 1 are unlikely to occur.</p> <p>Not available</p> <p>1. Some of the terms in the ISQC, such as “engagement partner” and “firm,” should be read as referring to their public sector equivalents. However, with limited exceptions, there is no public sector equivalent of “listed entities,” although there may be audits of particularly significant public sector entities which should be subject to the listed entity requirements of mandatory rotation of the engagement partner (or equivalent) and engagement quality control review. There are no fixed objective criteria on which this determination of significance should be based. However, such an assessment should encompass an evaluation of all factors relevant to the audited entity. Such factors include size, complexity, commercial risk, parliamentary or media interest and the number and range of stakeholders affected.</p> <p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>31. In considering whether the firm has the capabilities, competence, time and resources to undertake a new engagement from a new or an existing client, the firm reviews the specific requirements of the engagement and existing partner and staff profiles at all relevant levels. Matters the firm considers include whether:</p> <ul style="list-style-type: none"> • Firm personnel have knowledge of relevant

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<p>or subject matters;</p> <ul style="list-style-type: none"> • 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. <p><i>Integrity of Client (Ref: Para. 26(c))</i></p> <p>A19. With regard to the integrity of a client, matters to consider include, for example:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>A20. Sources of information on such matters obtained by the firm may include the following:</p> <ul style="list-style-type: none"> • 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. 	<p>industries or subject matters;</p> <ul style="list-style-type: none"> • Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively; • The firm has sufficient personnel with the necessary capabilities and competence; • Experts are available, if needed; • Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and • The firm is able to complete the engagement within the reporting deadline. <p>29. With regard to the integrity of a client, matters that the firm considers include, for example:</p> <ul style="list-style-type: none"> • The identity and business reputation of the client’s principal owners, key management, related parties and those charged with its governance. • The nature of the client’s operations, including its business practices. • Information concerning the attitude of the client’s principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment. • Whether the client is aggressively concerned with maintaining the firm’s fees as low as possible. • Indications of an inappropriate limitation in the scope of work. • Indications that the client might be involved in money laundering or other criminal activities. • The reasons for the proposed appointment of the firm and non-reappointment of the previous firm. <p>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.</p> <p>30. Information on such matters that the firm obtains may come from, for example:</p> <ul style="list-style-type: none"> • Communications with existing or previous providers of professional accountancy services to the client in accordance with the Code, 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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<p data-bbox="165 226 760 262">Continuance of Client Relationship (Ref: Para. 27(a))</p> <p data-bbox="165 289 824 514">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.</p> <p data-bbox="165 541 474 577">Withdrawal (Ref: Para. 28)</p> <p data-bbox="165 604 824 703">A22. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:</p> <ul data-bbox="186 703 824 1276" style="list-style-type: none"> • 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, legal or regulatory 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. <p data-bbox="165 1369 824 1438">Considerations Specific to Public Sector Audit Organizations (Ref: Para. 26-28)</p> <p data-bbox="165 1465 824 1789">A23. 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.</p>	<p data-bbox="834 289 1474 514">33. 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 knowledge or expertise.</p> <p data-bbox="834 604 1474 730">35. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:</p> <ul data-bbox="855 730 1474 1339" style="list-style-type: none"> • Discussing with the appropriate level of the client’s management and those charged with its governance regarding 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 issues, consultations, conclusions and the basis for the conclusions. <p data-bbox="834 1465 1474 1663">3. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, considerations regarding the acceptance and continuance of client relationships and specific engagements, as set out in paragraphs 28-35 of ISQC 1, may not apply.</p>

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<p>Human Resources (Ref: Para. 29)</p> <p>A24. Personnel issues relevant to the firm’s policies and procedures related to human resources include, for example:</p> <ul style="list-style-type: none"> • Recruitment. • Performance evaluation. • Capabilities, including time to perform assignments. • Competence. • Career development. • Promotion. • Compensation. • The estimation of personnel needs. <p>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.</p> <p>A25. Competence can be developed through a variety of methods, including the following:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>A27. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.</p> <p>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</p>	<p>Human Resources</p> <p>37. Such policies and procedures address the following personnel issues:</p> <ol style="list-style-type: none"> (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and (h) The estimation of personnel needs. <p>Addressing these issues enables the firm to ascertain the number and characteristics of the individuals required for the firm’s engagements. The firm’s recruitment processes include procedures that help the firm select individuals of integrity with the capacity to develop the capabilities and competence necessary to perform the firm’s work.</p> <p>38. Capabilities and competence are developed through a variety of methods, including the following:</p> <ul style="list-style-type: none"> • Professional education. • Continuing professional development, including training. • Work experience. • Coaching by more experienced staff, for example, other members of the engagement team. <p>39. 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. The firm therefore emphasizes in its policies and procedures the need for continuing training for all levels of firm personnel, and provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence. Where internal technical and training resources are unavailable, or for any other reason, the firm may use a suitably qualified external person for that purpose.</p> <p>40. The firm’s performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. In</p>

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<p>developing and maintaining competence and commitment to ethical principles include:</p> <ul style="list-style-type: none"> • 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. <p>Considerations Specific to Smaller Firms</p> <p>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.</p> <p>Assignment of Engagement Teams</p> <p>Engagement Partners (Ref: Para. 30)</p> <p>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.</p> <p>Engagement Teams (Ref: Para. 31)</p> <p>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:</p> <ul style="list-style-type: none"> • Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation; • Understanding of professional standards and applicable legal and regulatory 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. 	<p>particular, the firm:</p> <ol style="list-style-type: none"> (a) Makes personnel aware of the firm’s expectations regarding performance and ethical principles; (b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and (c) Helps 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. <p>41. 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.</p> <p>Assignment of Engagement Teams</p> <p>43. Policies and procedures 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.</p> <p>45. The firm establishes procedures to assess its staff’s capabilities and competence. The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the following:</p> <ul style="list-style-type: none"> • An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation. • An understanding of professional standards and regulatory and legal requirements. • Appropriate technical knowledge, including knowledge of relevant information technology. • Knowledge of relevant industries in which the clients operate. • Ability to apply professional judgment. • An understanding of the firm’s quality control

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<p>Engagement Performance</p> <p><i>Consistency in the Quality of Engagement Performance</i> (Ref: Para. 32(a))</p> <p>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.</p> <p>Matters addressed may include:</p> <ul style="list-style-type: none"> • 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. <p>A33. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.</p> <p><i>Supervision (Ref: Para. 32(b))</i></p> <p>A34. Engagement supervision includes the following:</p> <ul style="list-style-type: none"> • 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. 	<p>policies and procedures.</p> <p>Engagement Performance</p> <p>47. Through its policies and procedures, the firm seeks to establish consistency in the quality of engagement performance. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry or subject matterspecific guidance materials. Matters addressed include the following:</p> <ul style="list-style-type: none"> • 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. <p>48. It is important that all members of the engagement team understand the objectives of the work they are to perform. Appropriate team-working and training are necessary to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.</p> <p>49. Supervision includes the following:</p> <ul style="list-style-type: none"> • Tracking the progress of the engagement. • Considering the capabilities and competence 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 issues arising during the engagement, considering their significance and modifying the planned approach appropriately. • Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

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<p>Review (Ref: Para. 32(c))</p> <p>A35. A review consists of consideration of whether:</p> <ul style="list-style-type: none"> • The work has been performed in accordance with professional standards and applicable legal and regulatory 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. <p>Consultation (Ref: Para. 34)</p> <p>A36. Consultation includes discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise.</p> <p>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 strength and encourages personnel to consult on difficult or contentious matters.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>A39. Documentation of consultations with other</p>	<p>50. Review responsibilities are determined on the basis that more experienced engagement team members, including the engagement partner, review work performed by less experienced team members. Reviewers consider whether:</p> <ol style="list-style-type: none"> (a) The work has been performed in accordance with professional standards and regulatory and legal requirements; (b) Significant matters have been raised for further consideration; (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; (d) There is a need to revise the nature, timing and extent of work performed; (e) The work performed supports the conclusions reached and is appropriately documented; (f) The evidence obtained is sufficient and appropriate to support the report; and (g) The objectives of the engagement procedures have been achieved. <p>52. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.</p> <p>53. 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. The firm seeks to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.</p> <p>54. Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations.</p>

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<p>professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:</p> <ul style="list-style-type: none"> • 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. <p>Considerations Specific to Smaller Firms</p> <p>A40. A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by:</p> <ul style="list-style-type: none"> • Other firms; • Professional and regulatory bodies; or • Commercial organizations that provide relevant quality control services. <p>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.</p> <p>Engagement Quality Control Review</p> <p>Criteria for an Engagement Quality Control Review (Ref: Para. 35(b))</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Nature, Timing and Extent of the Engagement Quality Control Review (Ref: Para. 36-37)</p> <p>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.</p> <p>A43. Conducting the engagement quality control review</p>	<p>56. The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of:</p> <ol style="list-style-type: none"> (a) The issue on which consultation was sought; and (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented. <p>55. A firm needing to consult externally, for example, a firm without appropriate internal resources may take advantage of advisory services provided by (a) other firms, (b) professional and regulatory bodies, or (c) commercial organizations that provide relevant quality control services. Before contracting for such services, the firm considers whether the external provider is suitably qualified for that purpose.</p> <p>Engagement Quality Control Review</p> <p>62. Criteria that a firm considers when determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review include the following:</p> <ul style="list-style-type: none"> • 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. <p>Nature, Timing and Extent of the Engagement Quality Control Review</p> <p>Not available</p> <p>66. The engagement quality control reviewer conducts</p>

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<p>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.</p> <p>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.</p> <p>Engagement Quality Control Review of a Listed Entity (Ref: Para. 38)</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued.</p> <p>64. An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and, in particular, consideration of whether the report is appropriate. It also involves a review of selected working papers relating to the significant judgments the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.</p> <p>65. An engagement quality control review for audits of financial statements of listed entities includes considering the following:</p> <ul style="list-style-type: none"> • The engagement team's evaluation of the firm's independence in relation to the specific engagement. • Significant risks identified during the engagement and the responses to those risks. • Judgments made, particularly with respect to materiality and significant risk • Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations. • 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. • Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached. • The appropriateness of the report to be issued. <p>Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.</p>

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<p>Considerations specific to public sector audit organizations</p> <p>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.</p> <p>Criteria for the Eligibility of Engagement Quality Control Reviewers</p> <p>Sufficient and Appropriate Technical Expertise, Experience and Authority (Ref: Para. 39(a))</p> <p>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.</p> <p>Consultation with the Engagement Quality Control Reviewer (Ref: Para. 39(b))</p> <p>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.</p> <p>Objectivity of the Engagement Quality Control Reviewer (Ref: Para. 40)</p> <p>A49. The firm is required to establish policies and procedures designed to maintain objectivity of the engagement quality control reviewer. Accordingly, such</p>	<p>Not available</p> <p>Criteria for the Eligibility of Engagement Quality Control Reviewers</p> <p>69. The firm's policies and procedures on the technical qualifications of engagement quality control reviewers address the technical expertise, experience and authority necessary to perform the role. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. In addition, the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.</p> <p>71. The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant, however, 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 is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The firm's policies provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired.</p> <p>70. The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality</p>

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<p>policies and procedures provide that the engagement quality control reviewer:</p> <ul style="list-style-type: none"> • 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. <p>Considerations specific to smaller firms</p> <p>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.</p> <p>Considerations specific to public sector audit organizations</p> <p>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.</p> <p>Differences of Opinion (Ref: Para. 43)</p> <p>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.</p>	<p>control reviewer:</p> <ul style="list-style-type: none"> (a) Is not selected by the engagement partner; (b) Does not otherwise participate in the engagement during the period of review; (c) Does not make decisions for the engagement team; and (d) Is not subject to other considerations that would threaten the reviewer's objectivity. <p>72. 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 firm follows the requirements and guidance in paragraphs 68-71.</p> <p>2. ISQC 1, paragraph 70, states that "The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer." Subparagraph (a) notes as an example that the engagement quality control reviewer is not selected by the engagement partner. However, in many jurisdictions, there is a single statutorily appointed auditor-general who acts in a role equivalent to that of "engagement partner" and who has overall responsibility for public sector audits. In such circumstances, where applicable, the engagement reviewer should be selected having regard to the need for independence and objectivity.</p> <p>Differences of Opinion</p> <p>58. Such 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. The report <u>should</u> not be issued until the matter is resolved.</p>

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<p>A53. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.</p> <p>Engagement Documentation</p> <p>Completion of the Assembly of Final Engagement Files (Ref: Para. 45)</p> <p>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.</p> <p>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.</p> <p>Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation (Ref: Para. 46)</p> <p>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.</p> <p>A57. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised</p>	<p>59. A firm using a suitably qualified external person to conduct an engagement quality control review recognizes that differences of opinion can occur and establishes procedures to resolve such differences, for example, by consulting with another practitioner or firm, or a professional or regulatory body.</p> <p>Engagement Documentation</p> <p>Completion of the Assembly of Final Engagement Files</p> <p>73b. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement <u>should</u> be completed. Where no such time limits are prescribed in law or regulation, the firm establishes time limits appropriate to the nature of the engagements 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 is ordinarily not more than 60 days after the date of the auditor's report.</p> <p>73c. 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.</p> <p>73e. 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.</p> <p>73f. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be</p>

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<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <ul style="list-style-type: none"> • 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 	<p>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.</p> <p>Accordingly, the firm designs and implements appropriate controls for engagement documentation to:</p> <ol style="list-style-type: none"> (a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed; (b) 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; (c) Prevent unauthorized changes to the engagement documentation; and (d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities. <p>73g. Controls that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example:</p> <ul style="list-style-type: none"> • 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 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. <p>73h. For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:</p> <ol style="list-style-type: none"> (a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations; (b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and (c) Enable the scanned copies to be retrieved and

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<p>as necessary.</p> <p>There may be legal, regulatory or other reasons for a firm to retain original paper documentation that has been scanned.</p> <p>Retention of Engagement Documentation (Ref: Para. 47)</p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Ownership of engagement documentation</p> <p>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.</p>	<p>printed as necessary.</p> <p>The firm considers whether to retain original paper documentation that has been scanned for legal, regulatory or other reasons.</p> <p>Retention of Engagement Documentation</p> <p>73j. 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. In the specific case of audit engagements, the retention period ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.</p> <p>73k. Procedures that the firm adopts for retention of engagement documentation include those that:</p> <ul style="list-style-type: none"> • Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time. • Provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed. • Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes. <p>Ownership of engagement documentation</p> <p>73l. 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.</p>

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<p>Monitoring</p> <p><i>Monitoring the Firm's Quality Control Policies and Procedures (Ref: Para. 48)</i></p> <p>A64. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:</p> <ul style="list-style-type: none"> • Adherence to professional standards and applicable legal and regulatory 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. <p>A65. Ongoing consideration and evaluation of the system of quality control include matters such as the following:</p> <ul style="list-style-type: none"> • Analysis of: <ul style="list-style-type: none"> ○ New developments in professional standards and applicable legal and regulatory requirements, and how they are reflected in the firm's policies and procedures where appropriate; ○ Written confirmation of compliance with policies and procedures on independence; ○ Continuing professional development, including training; and ○ Decisions related to acceptance and continuance of client relationships and specific engagements. • Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training. • Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it. • Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures. <p>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:</p> <ul style="list-style-type: none"> • The size of the firm. • The number and geographical location of offices. 	<p>Monitoring</p> <p>75. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:</p> <ol style="list-style-type: none"> (a) Adherence to professional standards and regulatory and legal requirements; (b) Whether the quality control system has been appropriately designed and effectively implemented; and (c) 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. <p>77. Ongoing consideration and evaluation of the system of quality control includes matters such as the following:</p> <ul style="list-style-type: none"> • Analysis of: <ul style="list-style-type: none"> ○ New developments in professional standards and regulatory and legal requirements, and how they are reflected in the firm's policies and procedures where appropriate; ○ Written confirmation of compliance with policies and procedures on independence; ○ Continuing professional development, including training; and ○ Decisions related to acceptance and continuance of client relationships and specific engagements. • Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training. • Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it. • Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures. <p>78. The inspection of a selection of completed engagements is ordinarily performed on a cyclical basis. Engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle, which ordinarily spans no more than three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many</p>

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<ul style="list-style-type: none"> • 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. <p>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.</p> <p>Considerations Specific to Smaller Firms</p> <p>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.</p> <p>Communicating Deficiencies (Ref: Para. 50)</p> <p>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 then responsibilities of the individuals other than the engagement partners.</p> <p>Complaints and Allegations</p> <p>Source of Complaints and Allegations (Ref: Para. 55)</p> <p>A70. Complaints and allegations (which do not include</p>	<p>factors, including the following:</p> <ul style="list-style-type: none"> • 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. <p>79. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. Those inspecting the engagements are not involved in performing the engagement or the engagement quality control review. 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.</p> <p>80. Small firms and sole practitioners may wish to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, they may wish to establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.</p> <p>86. The reporting of identified deficiencies to individuals other than the relevant engagement partners ordinarily does not include an identification of the specific engagements concerned, unless such identification is necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.</p> <p>Complaints and Allegations</p> <p>90. Complaints and allegations (which do not include</p>

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<p>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.</p> <p>Investigation Policies and Procedures (Ref: Para. 56)</p> <p>A71. Policies and procedures established for the investigation of complaints and allegations may include for example, that the partner supervising the investigation:</p> <ul style="list-style-type: none"> • Has sufficient and appropriate experience; • Has authority within the firm; and • Is otherwise not involved in the engagement. <p>The partner supervising the investigation may involve legal counsel as necessary.</p> <p>Considerations specific to smaller firms</p> <p>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.</p> <p>Documentation of the System of Quality Control (Ref: Para. 57)</p> <p>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:</p> <ul style="list-style-type: none"> • The size of the firm and the number of offices. • The nature and complexity of the firm's practice and organization. <p>For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections.</p> <p>A74. Appropriate documentation relating to monitoring includes, for example:</p> <ul style="list-style-type: none"> • Monitoring procedures, including the procedure for selecting completed engagements to be inspected. • A record of the evaluation of: 	<p>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.</p> <p>92. The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.</p> <p>Not available</p> <p>Documentation</p> <p>95. How such matters are documented is the firm's decision. For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller firms may use more informal methods such as manual notes, checklists and forms.</p> <p>96. Factors to consider when determining the form and content of documentation evidencing the operation of each of the elements of the system of quality control include the following:</p> <ul style="list-style-type: none"> • The size of the firm and the number of offices. • The degree of authority both personnel and offices have. • The nature and complexity of the firm's practice and organization. <p>88. Appropriate documentation relating to monitoring:</p> <ol style="list-style-type: none"> (a) Sets out monitoring procedures, including the procedure for selecting completed engagements to be inspected; (b) Records the evaluation of:

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<ul style="list-style-type: none"> o Adherence to professional standards and applicable legal and regulatory 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. <ul style="list-style-type: none"> • Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary. <p>Considerations Specific to Smaller Firms</p> <p>A75. Smaller firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.</p>	<ul style="list-style-type: none"> (i) Adherence to professional standards and regulatory and legal requirements; (ii) Whether the quality control system has been appropriately designed and effectively implemented; and (iii) 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; and <ul style="list-style-type: none"> (c) Identifies the deficiencies noted, evaluates their effect, and sets out the basis for determining whether and what further action is necessary. <p>Not available</p>

PART II – PARAGRAPHS FROM THE CURRENT ISQC 1 THAT HAVE BEEN EXCLUDED FROM THE ISQC1 (REDRAFTED)

21. Comprehensive guidance on threats to independence and safeguards, including application to specific situations, is set out in Section 290 of the IFAC Code.

22. A firm receiving notice of a breach of independence policies and procedures promptly communicates relevant information to engagement partners, others in the firm as appropriate and, where applicable, experts contracted by the firm and network firm personnel, for appropriate action. Appropriate action by the firm and the relevant engagement partner includes applying appropriate safeguards to eliminate the threats to independence or to reduce them to an acceptable level, or withdrawing from the engagement. In addition, the firm provides independence education to personnel who are required to be independent.

The Malaysian Institute Of Accountants (“MIA”)

MIA is a statutory body established under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. To date, MIA has close to 25,000 members. For more information please visit: www.mia.org.my

The Use of the Word “Accountant”

In Malaysia, the word “accountant” is protected as provided for under the provisions of the Act which states that no one can hold himself out or practise as an accountant unless he is registered as a member of MIA.

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