

# PS-1: Quality Management

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*NZICA Professional and Ethical Standards*



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# PREFACE

PS-1: *Quality Management* is a NZICA professional and ethical standard comprising of 2 Parts.

Part 1: *Quality management for firms* is based on extracts from *International Standard on Quality Management (ISQM) 1, Quality Management for Firms that perform Audits and Reviews of Financial Statements, or other Related Services Engagements* published by the International Federation of Accountants (IFAC) in December 2020<sup>1</sup> and *International Standard on Quality Control (ISQC) 1, Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* published by IFAC in 2008<sup>2</sup>.

Part 2: *Quality management for individual engagements* is based on extracts from *International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements* published by IFAC in December 2020<sup>3</sup> and *International Standard on Auditing (ISA) 220, Quality Control for an Audit of Financial Statements* published by IFAC in 2008<sup>4</sup>.

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## Interactions between PS-1 and NZAuASB quality management standards

The New Zealand Auditing and Assurance Standards Board (NZAuASB) is New Zealand's independent standard setting body for assurance (including audits and reviews) and related services<sup>5</sup> engagements including the quality management standards applying to these engagements.

Paragraph 38 of the CA ANZ By-laws; paragraph 4 of the NZICA Rules and paragraph NZ R 113.1 of the NZICA Code of Ethics all require members to comply with pronouncements issued by the NZAuASB (in addition to any corresponding pronouncement issued by NZICA). Therefore, members who perform assurance and related services engagements must comply with Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance*

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<sup>5</sup> i.e. In NZ, this means services to perform agreed upon procedures or other non-assurance work that may ordinarily be performed by an assurance practitioner as prescribed by the XRB or NZAuASB. To date, the XRB and NZAuASB have not added any other non-assurance services to their standard setting mandate

*Engagements or Related Services Engagements* (PES 3); Professional and Ethical Standard 4: *Quality Engagement Reviews* (PES 4) and ISA 220 (NZ) *Quality Control for an Audit of Financial Statements* (ISA220) issued by the NZAuASB. These standards were fully aligned with the international quality management standards published by IFAC in December 2020.

In order to ensure that members who perform assurance and related services engagements do not have to comply with two sets of quality management standards in respect of those professional activities, paragraph R1.10 confirms that the remainder of PS-1 does not apply to:

- each part of the firm that performs assurance and related services engagements; and
- each assurance and related services engagement.

Paragraph 1.12A discusses how hybrid firms (i.e. firms that will be required to comply with both the NZAuASB quality management standards and PS-1) should approach compliance with PS-1.

# SCOPE AND APPLICATION

## Authority and effective date

- 1.1 The New Zealand Regulatory Board (NZRB) of the New Zealand Institute of Chartered Accountants (NZICA) has issued PS-1: *Quality Management* pursuant to its regulatory obligations under the New Zealand Institute of Chartered Accountants Act 1996.
- 1.2 *Firms* are required to establish effective *systems of quality management (SOQM)* in compliance with this standard by 15 December 2022. This standard is effective for individual *engagements* beginning on or after 15 December 2022. Early adoption is permitted. This standard replaces the extant standard PS-1: Quality Control (issued 07/2010).

## Member Obligations

- R1.3 ***Members in public practice*<sup>6</sup> shall comply with this standard in respect of the design, implementation and operation of the *SOQM* of their *firms* and the quality management of their *engagements* to the extent that they are not prevented from doing so by specific requirements of laws and regulations.**
- R1.4 ***Members in public practice* shall take reasonable steps to ensure that all persons associated with the *Member*, either working under their supervision or acting as their agent (including the *network*, *network firms*, individuals in the *network* or *network firms*, or *service providers*), comply with this standard when they assist the *Member* to design, implement and operate the *SOQM* of their *firms* and to perform their *engagements*.**

## Overview

- 1.5 This standard deals with:
- (a) a *firm's* responsibilities to design, implement and operate a *SOQM*;
  - (b) the specific responsibilities of the *engagement team* regarding quality management at the engagement level for all *engagements* and the related responsibilities of the *engagement partner*.
- 1.6 The *public interest* is served by the consistent performance of quality *engagements*. The design, implementation and operation of an effective *SOQM* enables the consistent performance of quality *engagements* by providing the firm with reasonable assurance that the objectives of the *SOQM*, stated in paragraph 2.1(a) and (b), are achieved. Quality *engagements* are achieved through planning and performing *engagements* and reporting on them in accordance with *professional standards* (including the *code*) and applicable laws and regulations. Complying with those standards and the requirements of applicable

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<sup>6</sup> ***Members in public practice* in this standard and the *code* include references to the *members' firm*. Terms denoted in italics are defined in the Glossary to this standard. *Members* should ensure that they familiarise themselves with the defined terms to ensure appropriate interpretation of this standard.**

law or regulation involves *having an inquiring mind* and exercising *professional judgment*.

- 1.7 The requirements of this standard, designated with the letter “R” and denoted in **bold-type**, impose obligations. These requirements are preceded or followed by application material designated with the letter “A” and in normal type, that provides context, explanations, and other guidance relating to matters relevant to the *SOQM*.
- 1.8 Terms that have been defined for the purposes of this standard are defined in the Glossary to this standard and denoted in the body of this standard in *italics*
- 1.9 This standard should be read in conjunction with the *code* and other NZICA *professional standards* and any laws and regulations that may apply to the provision of *professional services*. All references to the *code* and NZICA *professional standards* and laws and regulations are references to the *code* and those NZICA *professional standards* and laws and regulations as amended from time to time.

**Important Note: Firms that perform assurance and related services engagements**

- R1.10 ***Each part of a firm that performs assurance and related services<sup>7</sup> engagements shall comply with the applicable quality management standards<sup>8</sup> approved by the NZAuASB in respect of each assurance and related services engagement and not this standard.***
- R1.11 ***Firms shall comply with this standard in all instances that paragraph R1.10 does not apply.***
- 1.12A Both PES 3: Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements or Related Services Engagements (PES 3) issued by the NZAuASB and this standard (paragraph R3.1) require the *firm* to design, implement and operate a *SOQM* that provides the *firm* with *reasonable assurance* that its activities comply with *professional standards* (including the *code*) and laws and regulations, and its *engagement reports* are appropriate in the circumstances.
- However, each standard takes a different approach to assist *firms* to achieve this overarching requirement.
- PES 3 prescribes in detail the *SOQM* that the *firm’s* assurance practice (i.e., that part of a *firm* that performs *assurance and related services engagements*) is required to put in place. This system is intended to be robust enough to ensure that large and complex assurance practices appropriately manage their quality obligations. Smaller, less complex assurance practices are expected to scale down that system to fit the size and circumstances of that practice.
- In contrast, this Standard takes a different approach for non-assurance practices ((i.e. that part of a *firm* that does not perform *assurance and related services engagements*). It

<sup>7</sup> i.e. services to perform agreed upon procedures or other non-assurance work that may ordinarily be performed by an assurance practitioner as prescribed by the XRB or NZAuASB. To date, the XRB and NZAuASB have not added any other non-assurance services to their standard setting mandate

<sup>8</sup> See XRB Au1, Application of Auditing and Assurance Standards. For example, Professional and Ethical Standard 3: *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements or Related Services Engagements*; Professional and Ethical Standard 4: *Quality Engagement Reviews*; ISA (NZ) 220 *Quality Control for an Audit of Financial Statements*

prescribes policies and procedures, a *monitoring and remediation* process and documentation requirements that are required to be included in a non-assurance practice's *SOQM*. However, it does not otherwise prescribe how the *firm* should design, implement, and operate an effective *SOQM*.

The requirements of this Standard are grouped using the same *SOQM* components used in PES 3 and are designed to ensure that less complex non-assurance practices are able to readily design, implement and operate a *SOQM* that should achieve the overarching requirement in paragraph 3.1. However, all *firms* are required to consider whether they need to add additional policies and procedures (and by extension additional components) to their *SOQM* in order to ensure that they achieve the overarching requirement – see paragraph R3.4.

Practically, this means that:

- Multi-service *firms* with an assurance practice might choose to extend the *SOQM* that they design, implement, and operate to comply with PES 3 to the rest of the *firm* with suitable modification to ensure that it is appropriate to those other *professional services*.
- More complex *firms* that do not have an assurance practice might determine, after appropriate consideration of the nature and circumstances of *firm* and its *engagements*, that they need to include the formal risk assessment process and/or formal root cause analysis specified in PES 3<sup>9</sup> (suitably modified) in their *SOQM* in order to ensure that their *SOQM* is effective.
- Less complex *firms* (in particular, sole practitioners) that do not have an assurance practice might determine, after appropriate consideration of the nature and circumstances of the *firm* and its' *engagements*, that an *SOQM* that addresses all the relevant requirements of this standard will be effective.

For the avoidance of doubt, non-assurance practices that choose to comply with PES 3 will be considered to be complying with all relevant requirements of this standard as required by paragraph R1.13 below.

**Important Note: Applying and complying with relevant requirements**

- R1.13 **The *firm* shall comply with each requirement of this Standard unless, in the nature and circumstances of the *firm*, the requirement is not relevant to the services provided or to the individual *engagement* undertaken by the *firm*.**
- 1.13A This Standard does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no *staff*. Requirements in this Standard such as those for policies and procedures for the assignment of appropriate *personnel* to the *engagement team*, for review responsibilities, and for the annual communication of the results of monitoring to *engagement partners* within the *firm* are not relevant in the absence of *staff*. This Standard describes responsibilities for several different roles and functions within the *firm*, including overall leadership responsibility and *monitoring and remediation*. In the case of small *firms* it may be necessary for one person to perform more than one of these roles and functions. In some cases, such as when an *engagement quality review* is undertaken, it may be necessary or appropriate to use the services of a *service provider*.

<sup>9</sup> e.g. paragraphs 23 – 27 and 41 – 42 of PES 3



## Other

- R1.14 **In complying with this standard, *members in public practice* shall be guided not merely by the words but also by the spirit of this standard and the *code*.**
- 1.15 In this standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include other genders, and words referring to persons include companies or organisations, whether incorporated or not.

# PART 1 - Quality management for firms

- 2.1 The objective of the *firm* in Part 1 is to design, implement and operate a *SOQM* that will provide the *firm* with reasonable *assurance* that:
- a) The *firm* and its personnel comply with *professional standards* (including the *code*) and applicable laws and regulations and conduct *engagements* in accordance with such standards and requirements; and
  - b) *Engagement reports* issued by the *firm* or *engagement partners* are appropriate in the circumstances.
- 2.2 Part 2 provides the specific responsibilities of the *engagement partner* and the *engagement team* regarding quality management at the engagement level for all *engagements*.

## The firm's responsibilities for a system of quality management

### Overview

- R3.1 **The *firm* shall design, implement and operate an effective *SOQM*. In doing so, the *firm* shall exercise *professional judgment*, taking into account the nature and circumstances of the *firm* and its *engagements*.**
- 3.1A1 A *SOQM* will be effective if it provides the *firm* with *reasonable assurance* that:
- a) The *firm* and its *personnel* fulfill their responsibilities in accordance with *professional standards* (including the *code*) and applicable laws and regulations, and conduct *engagements* in accordance with such standards and requirements; and
  - b) *Engagement reports* issued by the *firm* or *engagement partners* are appropriate in the circumstances.
- 3.1A2 A *SOQM* operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the *firm* and its *engagements*. It also does not operate in a linear manner (i.e. it is a continuous system).
- Risk Based Approach**
- 3.1A3 The *firm* should apply a risk-based approach in designing, implementing and operating its *SOQM* in an interconnected and coordinated manner such that the *firm* proactively manages the quality of *engagements* performed by the *firm*.

### Required policies and procedures

- R3.2 **The *firm* shall include policies and procedures in its *SOQM* that address each of the following components:**
- (a) Governance and leadership.**
  - (b) *Professional standards* (including the *code*).**
  - (c) Acceptance and continuance of client relationships and specific *engagements*.**

- (d) **Resources.**
- (e) **Engagement performance.**
- (f) **Information and communication.**
- (g) **Monitoring and remediation.**

- 3.2A The required policies and procedures in respect to these components are specified further:
- At the *firm* level - Part 1 – paragraphs R4.1 – 10.10A2
  - For individual *engagements* - Part 2 – paragraphs R14.1 – R18.8
- R3.3 **The quality management policies and procedures shall be documented and communicated to the *firm's* personnel in a manner that provides *reasonable assurance* that the policies and procedures are understood and implemented.**
- 3.3A1 Documentation of the *SOQM* and associated policies and procedures is specified further:
- At the *firm* level - Part 1 – paragraphs R11.1 – R11.4
  - For individual *engagements* - Part 2 – paragraphs R20.1 – 20.1A
- 3.3A2 In general, communication of quality management policies and procedures to *firm personnel* includes a description of the quality management 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. The form and content of communication should be explicit to provide *personnel* with a ready source of information concerning those policies and procedures applicable to them. Encouraging *firm personnel* to communicate their views or concerns on quality management matters recognises the importance of obtaining feedback on the *firm's SOQM*.
- 3.3A3 Documentation and communication of policies and procedures for less complex *firms* may be less formal and extensive than for more complex *firms*.
- Additional policies and procedures
- R3.4 **The requirements in this Standard are designed to enable the *firm* to achieve the overarching requirement stated in paragraph R3.1. 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 and maintain policies and procedures in addition to those required by this Standard to meet the overarching requirement stated in paragraph R3.1.**
- 3.4A All *firms* should take a risk-based approach to designing, implementing and operating their *SOQM*. More complex *firms* might include a formal risk assessment process<sup>10</sup> in their *SOQM* in order to identify any additional policies and procedures needed to meet the requirement in paragraph R3.4.

<sup>10</sup> e.g. paragraphs 23 – 27 of PES 3

### Allocation of responsibilities within the firm

- R3.5 **The *firm's* chief executive officer (or equivalent) or, if appropriate, the *firm's* managing board of *Principals* (or equivalent) shall assume ultimate responsibility and accountability for the *firm's* SOQM and evaluate its effectiveness on an annual basis.**
- R3.6 **The *firm* shall establish and maintain policies and procedures such that any person or persons assigned operational responsibility for the *firm's* SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility and has a direct line of communication with that individual.**
- 3.6A Sufficient and appropriate experience and ability enables the person or persons responsible for the *firm's* SOQM to identify and understand quality management issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.
- R3.7 ***Personnel* within the *firm* responsible for designing, implementing and operating the *firm's* SOQM shall have an understanding of the entire text of this Standard, including its application material, to understand and to apply its requirements properly.**

### Networks and service providers

- R3.8 **The *firm* shall always remain responsible for its SOQM, including *professional judgments* made in the design, implementation and operation of the SOQM. The *firm* shall not allow compliance with *network* requirements or use of *network services* or *service providers* to contravene the requirements of this Standard.**
- 3.8A When the *firm* belongs to a *network*, the *network* might:
- (a) Establish requirements regarding the *firm's* SOQM, including requirements for the *firm* to implement or use resources or services designed or otherwise provided by or through the *network* (i.e. network requirements);
  - (b) Provide services (including performing monitoring activities) or resources (including information on discrepancies across the *network*) that the *firm* might use to implement or use in the design, implementation or operation of the *firm's* SOQM (i.e., network services).

Similarly, the *firm* might seek services (including performing monitoring activities) or resources from a *service provider* that the *firm* might use to implement or use in the design, implementation or operation of the *firm's* SOQM (i.e. service provider services).

Where these circumstances occur, in order to satisfy paragraph R3.8, the *firm* should (amongst other things):

- Gain an understanding of the network requirements and network services or service provider services;

- Determine how the network requirements or network services or service provider services are relevant to, and should be taken into account in, the *firm's* SOQM;
- Evaluate whether and, if so, how the network requirements or network services or service provider services need to be adapted or supplemented by the *firm* to be appropriate for use in its SOQM; and
- Communicate with the *network* or *service providers* relevant information about the adaptations and supplements it has made.

### Governance and leadership

R4.1

**The *firm* shall establish and maintain policies and procedures designed to promote an internal culture that requires ethical behaviour and recognises that quality is essential in performing *engagements*.**

**Such policies and procedures shall address:**

- (a) **The *firm's* commitment to quality which recognises and reinforces:**
- (i) **The *firm's* role in serving the *public interest* by consistently performing quality *engagements*;**
  - (ii) **The importance of professional ethics, values and attitudes;**
  - (iii) **The responsibility of all *personnel* for quality relating to the performance of *engagements* or activities within the SOQM, and their expected behaviour; and**
  - (iv) **The importance of quality in the *firm's* strategic decisions and actions, including the *firm's* financial and operational priorities.**
- (b) **Leadership is responsible and accountable for quality.**
- (c) **Leadership demonstrates a commitment to quality through their actions and behaviors.**
- (d) **The organisational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the *firm's* SOQM.**
- (e) **Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the *firm's* commitment to quality.**

4.1A1

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

- a) Perform work that complies with *professional standards* (including the *code*) and applicable laws and regulations; and
- b) Issue *engagement reports* that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards ethical behaviour and 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 *Principal* and *staff* appraisal procedures such that they will support and reinforce the *firm's* view on the importance of ethical behaviour and quality and how, practically, it is to be achieved.

- 4.1A2 *Professional standards* (including the *code*) establish the principles of professional ethics, and are further addressed in the *professional standards* (including the *code*) component of this Standard. Professional values and attitudes may include:
- Professional manner, for example, timeliness, courteousness, respect, accountability, responsiveness, and dependability.
  - A commitment to teamwork.
  - Maintaining an open mind to new ideas or different perspectives in the professional environment.
  - Pursuit of excellence.
  - A commitment to continual improvement (e.g., setting expectations beyond the minimum requirements and placing a focus on continual learning).
  - Social responsibility.
- 4.1A3 Of particular importance in promoting an internal culture based on professional behaviour and quality is the need for the *firm's* leadership to recognise that the *firm's* business strategy (including financial and operational priorities) is subject to the overriding requirement for the *firm* to achieve quality in all the *engagements* that the *firm* performs. Promoting such an internal culture includes:
- a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its *personnel*, in order to demonstrate the *firm's* overriding commitment to ethical behaviour and 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 management policies and procedures.

### **Professional standards (including the code)**

- R5.1 **The *firm* shall establish and maintain policies and procedures designed to provide it with *reasonable assurance* that the *firm*, its *personnel* and others, including the *network*, *network firms*, or *service providers*, as appropriate, comply with *professional standards* (including the *code*).**
- 5.1A The *code* sets out the standards of behaviour and approach to *professional activities* expected by *Members* in meeting their responsibility to act in the *public interest*. This includes compliance with all laws and regulations. Other *professional standards* usually expand on the application of the *code* to particular service(s) or situation(s) and prescribe other additional professional requirements for those service(s) or situation(s).
- R5.2 **Where the *firm* has *engagements* subject to independence requirements, the policies and procedures the *firm* establishes and maintains to comply**

with paragraph R5.1 shall include policies and procedures that enable the *firm* to:

- a) identify and communicate its independence requirements to its *personnel* and, where applicable, others subject to them; and
- b) identify (including prompt notification of possible breaches) and evaluate circumstances and relationships that create threats to independence, and to take appropriate action in accordance with *professional standards* (including the *code*).

#### Acceptance and continuance of client relationships and specific engagements

R6.1 The *firm* shall establish and maintain 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:

- a) only undertake or continue relationships and *engagements* where the *firm*:
  - (i) is competent to perform the *engagement* and has the capabilities, including time and resources, to do so;
  - (ii) can comply with relevant *professional standards* (including the *code*) and laws and regulations; and
  - (iii) has considered the integrity and other ethical values of the client and does not have information that would lead it to conclude that the client lacks integrity or other ethical values.
- b) Ensure that the financial priorities of the *firm* do not lead to inappropriate judgements about whether to accept or continue a client relationship or specific *engagements*.

6.1A1 Subject to situations where a firm has no choice in accepting or retaining a client, for example a statutory mandate, an evaluation of prospective clients and a review of existing clients should be conducted to ensure that the firm is able to meet its professional obligations while serving the clients' needs. The evaluation of existing and prospective clients should be performed by *personnel* who have the appropriate professional skills and competence required in the circumstances.

6.1A2 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* (including whether the *firm* will have access to persons and information necessary to perform the *engagement*) the existing *Principal* and *staff* profiles at all relevant levels and other resources available, including whether:

- *Firm personnel* have knowledge of relevant industries or subject matters;
- *Firm personnel* have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- The *firm* has sufficient *personnel* with the necessary capabilities competence and time;

- The *firm* has sufficient other resources including intellectual, IT and *service provider* resources;
- Subject matter experts and other appropriate *service providers* are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform *engagement quality review* are available, where applicable; and
- The *firm* is able to complete the *engagement* within the reporting deadline.

6.1A3 With regard to the integrity of a client, matters to consider include, for example:

- The identity and business reputation of the client's principal owners, key management, and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards or laws and regulations.
- Whether the client is aggressively concerned with maintaining the *firm's* fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the *firm* and non-reappointment of the previous *firm*.
- The identity and business reputation of related parties.
- The extent of knowledge a *firm* will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

6.1A4 Sources of information on such matters obtained by the *firm* may include the following:

- Communications with existing or previous providers of *professional services* to the client in accordance with *professional standards* (including the *code*), and discussions with other third parties.
- Enquiry of other *firm personnel* or third parties such as bankers, legal counsel and industry bodies or peers.
- Background searches of relevant databases.

6.1A5 Information that is obtained during the *firm's* acceptance and continuance process may often also be relevant to the *engagement team* when planning and performing the *engagement*. Part 2 requires the *engagement partner* to take into account information obtained in the acceptance and continuance process in planning and performing the *engagement*.

R6.2 **Acceptance and continuance policies and procedures shall require:**

- 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.**

- 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*.**
- 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 to ensure compliance with *professional standards* (including the *code*) and laws and regulations.**

6.2A 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 been found to be uncooperative or may have started to expand its business operations into an area where the *firm* does not possess the necessary expertise.

R6.3 **The *firm* shall establish and maintain policies and procedures on continuing an *engagement* and the client relationship, addressing the circumstances where the *firm* obtains information that would have caused it to decline the *engagement* had that information been available earlier. Such policies and procedures shall include consideration of:**

- a) the professional and legal responsibilities that apply to the circumstances (including responding to non-compliance with laws and regulations requirements in the *code*<sup>11</sup>); and**
- b) the possibility of withdrawing from the *engagement* or from both the *engagement* and the client relationship.**

6.3A Policies and procedures on withdrawal from an *engagement* or from both the *engagement* and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the *firm* might take based on the relevant facts and circumstances.
- If the *firm* determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the *engagement* or from both the *engagement* and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, 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 issues, consultations, conclusions and the basis for the conclusions

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<sup>11</sup> Sections 260 and 360 of the *code*

## Resources

R7.1

The *firm* shall establish and maintain policies and procedures designed to provide it with *reasonable assurance* that it has sufficient and appropriate resources for use in the *firm's SOQM* and in performance of *engagements*. Such policies and procedures shall ensure:

### Human resources

- a) sufficient *personnel* and, where required, other individuals (including the *network*, *network firms*, or *service providers*) are employed with the competence, capabilities, and commitment to ethical principles necessary to:
  - (i) perform *engagements* or activities within the *SOQM* in accordance with *professional standards* (including the *code*) and laws and regulations; and
  - (ii) enable the *firm* or *engagement partners* to issue *engagement reports* that are appropriate in the circumstances.
- b) appropriate *personnel*, or other individuals, where required are assigned to each *engagement* or activities within the *SOQM*.

### Technological resources

- c) appropriate technological resources are obtained or developed, implemented, maintained, and used.

### Intellectual resources

- d) appropriate intellectual resources are obtained or developed, implemented, maintained, and used, that are consistent with *professional standards* (including the *code*) and applicable laws and regulations, where applicable.

### Service providers

- e) human, technological or intellectual resources from *service providers* are appropriate, taking into account the other resources deployed in (a), (b), and (c) in this paragraph.

7.1A1

Resources for the purposes of the resources component include:

- Human resources,
- Technological resources,
- Intellectual resources, and
- *Service providers*.

Financial resources are also relevant to the *SOQM* because they are necessary for obtaining, developing and maintaining the *firm's* human resources, technological resources and intellectual resources. Given that the management and allocation of financial resources is strongly influenced by leadership, the policies and procedures in governance and leadership, such as those that address financial and operational priorities, address financial resources.

7.1A2 Resources may be internal to the *firm*, or may be obtained externally from the *firm's network*, another *network firm* or *service provider*. Resources may be used in performing activities within the *firm's SOQM*, or in the performance of *engagements* as part of operating the *SOQM*. Part 2 addresses the responsibility of the *engagement partner* regarding *engagement* resources.

### Human resources

7.2A1 *Personnel* issues relevant to the *firm's* policies and procedures related to human resources include, for example:

- Recruitment.
- Performance evaluation.
- Capabilities, including time to perform assignments.
- Competence.
- Career development.
- Promotion.
- Compensation.
- The estimation of *personnel* needs.

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

7.2A2 Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including the following:

- Professional education.
- Continuing professional development, including training.
- Work experience.
- Coaching, by more experienced *staff*, for example, other members of the *engagement team*.
- Independence education for *personnel* who are required to be independent.

7.2A3 The continuing competence of the *firm's personnel* depends to a significant extent on an appropriate level of continuing professional development so that *personnel* maintain their knowledge and capabilities. Effective policies and procedures emphasise the need for continuing training for all levels of *firm personnel*, and provide the necessary training resources and assistance to enable *personnel* to develop and maintain the required competence and capabilities.

7.2A4 Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to

ethical principles. Steps a *firm* may take in developing and maintaining competence and commitment to ethical principles include:

- Making *personnel* aware of the *firm's* expectations regarding performance and ethical principles;
- Providing *personnel* with evaluation of, and counselling 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.

7.2A5 The nature and circumstances of the *firm* will influence the structure of the *firm's* performance evaluation process. Less complex *firms* may employ less formal methods of evaluating the performance of their *personnel*.

#### **Assignment of engagement teams**

R7.3 **The *firm* shall assign responsibility for each *engagement* to an *engagement partner* and shall establish and maintain policies and procedures requiring that:**

- a) the identity and role of the *engagement partner* are communicated to key members of client management and those charged with governance;**
- b) the *engagement partner* has the appropriate competence, capabilities, time and authority to perform the role;**
- c) the *engagement partner* has the time to be sufficiently and appropriately involved throughout the *engagement*; and**
- d) the responsibilities of the *engagement partner* are clearly defined and communicated to that *engagement partner*.**

7.3A1 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.

7.3A2 Part 2 addresses the *engagement partner's* responsibilities in respect to the assignment of individuals to individual *engagements*.

R7.4 **The *firm* shall also establish and maintain policies and procedures to assign appropriate *personnel* and, where required, other individuals (including the *network*, *network firms*, or *service providers*) with the necessary competence, capabilities and time to:**

- a) perform *engagements* in accordance with *professional standards* including the *code*) and applicable laws and regulations; and**
- b) enable the *firm* or *engagement partners* to issue *engagement reports* that are appropriate in the circumstances.**

7.4A The *firm's* assignment of *engagement teams* and the determination of the level of supervision required, include, for example, consideration of the *engagement team's*:

- Understanding of, and practical experience with, *engagements* of a similar nature and complexity through appropriate training and participation;
- Understanding of *professional standards* (including the *code*) and applicable laws and regulations;
- Technical knowledge and expertise, including knowledge of relevant information technology;
- Knowledge of relevant industries in which the clients operate;
- Ability to *have an inquiring mind* and apply *professional judgement*; and
- Understanding of the *firm's* quality management policies and procedures.

#### Assignment to SOQM activities

R7.5 **Personnel and, where required, other individuals (including the *network*, *network firms*, or *service providers*) assigned to perform activities within the *SOQM* shall have appropriate competence and capabilities, including sufficient time, to perform such activities.**

#### Technology resources

7.6A1 Technological resources, which are typically IT applications, form part of the *firm's* IT environment. The *firm's* IT environment also includes the supporting IT infrastructure and the IT processes and human resources involved in those processes:

- An IT application is a program or a set of programs that is designed to perform a specific function directly for the user or, in some cases, for another application program.
- The IT infrastructure is comprised of the IT network, operating systems, and databases and their related hardware and software.
- The IT processes are the *firm's* processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment.

7.6A2 A technological resource may serve multiple purposes within the *firm* and some of the purposes may be unrelated to the *SOQM*. Technological resources that are relevant for the purposes of this Standard are:

- Technological resources that are directly used in designing, implementing or operating the *firm's* *SOQM*;
- Technological resources that are used directly by *engagement teams* in the performance of *engagements*; and
- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

7.6A3 The *firm* may consider the following matters in obtaining, developing, implementing and maintaining an IT application:

- The data inputs are complete and appropriate;

- Confidentiality of the data is preserved;
- The IT application operates as designed and achieves the purpose for which it is intended;
- The outputs of the IT application achieve the purpose for which they will be used;
- The general IT controls necessary to support the IT application's continued operation as designed are appropriate;
- The need for specialised skills to utilise the IT application effectively, including the training of individuals who will use the IT application; and
- The need to develop procedures that set out how the IT application operates.

### Intellectual resources

7.7A1 Intellectual resources include the information the *firm* uses to enable the operation of the *SOQM* and promote consistency in the performance of *engagements*.

#### **Examples** of intellectual resources:

Written policies or procedures, a methodology, industry or subject matter-specific guides, accounting guides, standardised documentation or access to information sources (e.g., subscriptions to websites that provide in-depth information about entities or other information that is typically used in the performance of *engagements*).

7.7A2 Intellectual resources may be made available through technological resources, for example, the *firm's* methodology may be embedded in the IT application that facilitates the planning and performance of the *engagement*.

### Use of technological and intellectual resources

7.8A The *firm* may establish policies or procedures regarding the use of the *firm's* technological and intellectual resources. Such policies or procedures may:

- Require the use of certain IT applications or intellectual resources in the performance of *engagements*, or relating to other aspects of the *engagement*, such as in archiving the *engagement* file.
- Specify the qualifications or experience that individuals need to use the resource, including the need for an expert or training.
- Specify the responsibilities of the *engagement partner* regarding the use of technological and intellectual resources.
- Set out how the technological or intellectual resources are to be used, including how individuals should interact with an IT application or how the intellectual resource should be applied, and the availability of support or assistance in using the technological or intellectual resource.

### Service providers

7.9A1 In some circumstances, the *firm* may use resources that are provided by a *service provider*.

#### **Examples** of resources from a *service provider*:

- Individuals engaged to perform the *firm's* monitoring activities or *engagement quality reviews*, or to provide consultation on technical matters.
- A commercial IT application used to perform *engagements*.
- Individuals performing procedures on the *firm's engagements* from other *firms* not within the *firm's network*.
- An external subject matter expert used by the *firm* to assist the *engagement team* to perform the *engagement*.

7.9A2 The *firm* may establish policies or procedures regarding the use of *service providers*. Such policies or procedures may include:

- The information to be obtained and the matters to be considered in determining whether a resource from a *service provider* is appropriate.
- How the use of the service should be communicated to clients and their consent to its use obtained.
- How the *firm* will monitor and manage the receipt of the service including what documentation the *firm* should be put in place to support the service and how it will ensure on-going compliance with *professional standards* (including the *code*) and laws and regulations.
- Specify what performance measures might be used to evaluate whether to renew or terminate the service.
- Specify what contingency plans the *firm* has in place if the service is terminated without notice.

7.9A3 In determining whether a resource from a *service provider* is appropriate for use in the *firm's SOQM* or in the performance of *engagements*, the *firm* may obtain information about the *service provider* and the resource they provide from a number of sources. Matters the *firm* may consider include:

- The nature and scope of the resources, and the conditions of the service including:
  - Whether the service is consistent with the *firm's* obligations to comply with *professional standards* (including the *code*) and laws and regulations including:
    - whether the *service provider* has a conflict of interest with the *firm* or its' clients;
    - whether the *service provider* demonstrates professional competence and due care; and
    - how the *service provider* addresses confidentiality/privacy;
  - in relation to technological and intellectual resources, how often updates will be provided or in relation to human resources, how often continuing professional development will be undertaken, including whether the update/training will reflect changes to *professional standards* (including the *code*) and laws and regulations; and
  - any limitations on the use of the service.

- How the resource will be used by the *firm* and whether it is suitable for that purpose.
- The extent of customisation of the resource for the *firm*.
- The actions the *firm* might need to take for the service to operate including any information needed or new infrastructure that might be required.
- The impact on other *firm* activities and arrangements.
- The *firm's* previous use of the *service provider*.
- The *service provider's* experience in the industry and reputation in the market including its' integrity.

## Engagement performance

### Consistency, supervision, and review

R8.1 **The *firm* shall establish and maintain policies and procedures designed to provide it with *reasonable assurance* that *engagements* are performed in accordance with *professional standards* (including the *code*) and applicable laws and regulations, and that the *firm* or the *engagement partner* issues *engagement reports* that are appropriate in the circumstances. Such policies and procedures shall include, for both the *firm* and individual *engagement teams*:**

- matters relevant to promoting consistency in the quality of *engagement* performance including the need to *have an inquiring mind* and to exercise *professional judgement*;**
- supervision responsibilities; and**
- review responsibilities.**

### Consistency

8.1A1 The *firm* promotes consistency in the quality of *engagement* performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardised documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:

- How *engagement teams* are briefed on the *engagement* to obtain an understanding of the objectives of their work.
- Processes for complying with applicable *professional standards* (including the *code*) and laws and regulations.
- Processes of *engagement* supervision, *staff* training and coaching (including appropriate oversight of other individuals sourced from the *network*, *network firms*, or *service providers*, if required).
- Methods of reviewing the work performed, the significant judgements made and the form of *engagement report(s)* 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.

8.1A2 Appropriate teamwork and training assist less experienced members of the *engagement team* to clearly understand the objectives of the assigned work.

### Supervision

8.1A3 *Engagement* supervision includes the following:

- Tracking the progress of the *engagement*;
- Considering the competence and capabilities of individual members of the *engagement team*, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the *engagement*;
- Addressing significant matters arising during the *engagement*, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced *engagement team* members during the *engagement*.

### Review

8.1A4 A review consists of consideration of whether:

- The work has been performed in accordance with *professional standards* (including the *code*) and applicable laws and regulations;
- 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 work performed is sufficient and appropriate to support the *engagement report(s)*; and
- The objectives of the *engagement* procedures have been achieved.

R8.2 **The *firm's* review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced *engagement team* members.**

### Engagement team's responsibilities for consistency, supervision, and review

8.3A Part 2 addresses the *engagement team's* responsibilities in respect to the consistency, supervision and review of individual *engagements*.

### Consultation

R8.4 **The *firm* shall establish and maintain policies and procedures designed to provide it with *reasonable assurance* that:**

- 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.**

- 8.4A1 Consultation includes discussion at the appropriate professional level with individuals within or outside the *firm* who have specialised expertise.
- 8.4A2 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 judgement*. Appropriate recognition of consultation in the *firm's* policies and procedures helps to promote a culture in which consultation is recognised as a strength and encourages *personnel* to consult on difficult or contentious matters.
- 8.4A3 Effective consultation on significant technical, ethical or other matters within the *firm*, or where applicable, outside the *firm* can be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
  - Have appropriate knowledge, seniority and experience,
- and when conclusions resulting from consultations are appropriately documented and implemented.
- 8.4A4 Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:
- The issue on which consultation was sought; and
  - The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.
- 8.4A5 A *firm* needing to consult externally, for example a *firm* without appropriate internal resources, may take advantage of advisory services provided by:
- Other *firms*;
  - Professional and regulatory bodies; or
  - Commercial organisations that provide relevant quality management services.
- Before contracting for such services, consideration of the competence and capabilities of the *service provider* helps the *firm* to determine whether the *service provider* is suitably qualified for that purpose.
- 8.4A6 Part 2 addresses the *engagement team's* responsibilities in respect to consultation on individual *engagements*.
- High-risk engagements
- R8.5 **The *firm* shall consider whether it should establish and maintain policies or procedures that address *engagement quality reviews* for high-risk *engagements*.**

- 8.5A The *firm* might determine that certain high-risk *engagements* require an *engagement quality review* that will involve an *engagement quality reviewer* providing an objective evaluation of the significant judgements made by the *engagement team* and the conclusions reached thereon before the *engagement report(s)* is issued. Criteria that the *firm* might choose to use to determine which *engagements* are subject to an *engagement quality review* might be based on, for example:
- The nature the *engagement* including the extent to which it might be subject to regulatory scrutiny; involve a matter that the *firm* has limited experience in and/or involves a matter of *public interest*;
  - The identification of complexity or unusual circumstances or risks with an *engagement* or class of *engagement*;
  - The size of the client and the number of stakeholders;
  - The *engagement report(s)* will be made public;
  - Whether laws and regulations require such a review.
- R8.6 **Where the *firm* determines that it should establish and maintain policies and procedures for *engagement quality reviews*, such policies and procedures shall:**
- a) **Set-out the criteria against which *engagements* will be evaluated to determine whether an *engagement quality review* should be performed;**
  - b) **Require an *engagement quality reviewer* to perform a review of all *engagements* meeting the criteria determined in (a) above;**
  - c) **Set out the appointment and eligibility criteria of the *engagement quality reviewer* (including qualifications and that the *engagement quality reviewer* is objective) and the *engagement quality reviewer's* responsibilities related to the performance and documentation of the review (including dealing with and resolving differences of opinion); and**
  - d) **Require the *engagement report(s)* not be issued until completion of the *engagement quality review*.**
- 8.6A1 The *firm* may base the policies and procedures it develops to comply with paragraph R8.6 on PES 4: Engagement Quality Reviews issued by the External Reporting Board.
- 8.6A2 Part 2 addresses the *engagement partner's* responsibilities in respect to *engagement quality reviews* on individual *engagements*.

#### Differences of opinion

- R8.7 **The *firm* shall establish and maintain 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 reviewer*.**
- 8.7A1 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.

8.7A2 Procedures to resolve such differences may include consulting with another *Member* or *firm*, or a professional or regulatory body.

R8.8 **Such policies and procedures shall require that:**

- a) **conclusions reached be documented and implemented; and**
- b) **where an *engagement report(s)* is required the *engagement report(s)* not be issued until the matter is resolved.**

#### Engagement documentation

8.9A Part 2 addresses the *engagement team's* responsibilities in respect to documentation of individual *engagements*.

#### Assembly of files

R8.10 **The *firm* shall establish and maintain policies and procedures for *engagement teams* to complete the assembly of final *engagement* files on a timely basis after the *engagement reports* have been finalised.**

8.10A1 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 R8.10 requires the *firm* to establish time limits that reflect the need to complete the assembly of final *engagement* files on a timely basis

8.10A2 Where two or more different *engagement reports* are issued in respect of the same subject matter of an entity, the *firm's* policies and procedures relating to time limits for the assembly of final *engagement* files address each *engagement report* as if it were for a separate *engagement*.

#### Confidentiality etc. of engagement documentation

R8.11 **The *firm* shall establish and maintain policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of *engagement documentation*.**

8.11A1 *Professional standards* (including the *code*) establish an obligation for the *firm's* *personnel* to maintain confidentiality of information contained in *engagement documentation*. 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.

8.11A2 Whether *engagement documentation* is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the *firm's* knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the *firm* designs and implements to avoid unauthorised alteration or loss of *engagement documentation* may include those that:

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

- Protect the integrity of the information at all stages of the *engagement*, especially when the information is shared within the *engagement team* or transmitted to other parties via the Internet;
- Prevent unauthorised changes to the *engagement documentation*; and
- Allow access to the *engagement documentation* by the *engagement team* and other authorised parties as necessary to properly discharge their responsibilities.

8.11A3 Controls that the *firm* designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of *engagement documentation* may include the following:

- The use of a password among *engagement team* members to restrict access to electronic *engagement documentation* to authorised users.
- Appropriate back-up routines for electronic *engagement documentation* at appropriate stages during the *engagement*.
- Procedures for properly distributing *engagement documentation* to the team members at the start of the *engagement*, processing it during the *engagement*, and collating it at the end of the *engagement*.
- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy *engagement documentation*.

8.11A4 For practical reasons, original paper documentation may be electronically scanned for inclusion in *engagement* files. In such cases, the procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the *engagement teams* to:

- Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- Integrate the scanned copies into the *engagement* files, including indexing and signing off on the scanned copies as necessary; and
- Enable the scanned copies to be retrieved and printed as necessary.

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

#### **Retention of engagement documentation**

R8.12 **The *firm* shall establish and maintain 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.**

8.12A1 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 laws and regulations.

8.12A2 Procedures that the *firm* adopts for retention of *engagement documentation* include those that enable the requirements of paragraph R8.12 to be met during the retention period, for example to:

- Enable the retrieval of, and access to, the *engagement documentation* during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time;
- Provide, where necessary, a record of changes made to *engagement documentation* after the *engagement* files have been completed; and
- Enable authorised external parties to access and review specific *engagement documentation* for quality management or other purposes.

### Information and communication

**R9.1 The *firm* shall establish and maintain policies and procedures that address obtaining, generating or using information regarding the *SOQM*, and communicating information within the *firm* and to external parties on a timely basis to enable the design, implementation and operation of the *SOQM*. Such policies and procedures shall address:**

- (a) The information system identifies, captures, processes and maintains relevant and reliable information that supports the *SOQM*, whether from internal or external sources.**
- (b) The culture of the *firm* recognises and reinforces the responsibility of *personnel* to exchange information with the *firm* and with one another.**
- (c) Relevant and reliable information is exchanged throughout the *firm* and with *engagement teams* to enable all the parties to understand and comply with their *SOQM* and *engagement* quality obligations.**
- (d) Relevant and reliable information is communicated to external parties, including the *firm's network*, *service providers*, and other external parties as required by *professional standards* (including the *code*) or laws and regulation.**

9.1A1 Obtaining, generating or communicating information is generally an ongoing process that involves all *personnel* and encompasses the dissemination of information within the *firm* and externally. Information and communication is pervasive to all components of the *SOQM*.

#### The firm's information system

9.1A2 Reliable and relevant information includes information that is accurate, complete, timely and valid to enable the proper functioning of the *firm's SOQM* and to support decisions regarding the *SOQM*.

9.1A3 The information system may include the use of manual or IT elements, which affect the manner in which information is identified, captured, processed, maintained and communicated. The procedures to identify, capture, process, maintain and communicate information may be enforced through IT applications, and in some cases may be embedded within the *firm's* responses for other components. In addition, digital records may replace or supplement physical records.

Scalability **example** to demonstrate how the information system may be designed in a less complex *firm*:

Less complex *firms* with fewer *personnel* and direct involvement of leadership may not need rigorous policies and procedures that specify how information should be identified, captured, processed and maintained.

### Communication within the firm

9.1A4 The *firm* may recognise and reinforce the responsibility of *personnel* and *engagement teams* to exchange information with the *firm* and with one another by establishing communication channels to facilitate communication across the *firm*.

**Examples** of communication among the *firm*, *personnel* and *engagement teams*:

- The *firm* communicates the responsibility for implementing the *firm's* policies and procedures to *personnel* and *engagement teams*.
- The *firm* communicates changes to the *SOQM* to *personnel* and *engagement teams*, to the extent that the changes are relevant to their responsibilities and enables *personnel* and *engagement teams* to take prompt and appropriate action in accordance with their responsibilities.
- The *firm* communicates information that is obtained during the *firm's* acceptance and continuance process that is relevant to *engagement teams* in planning and performing *engagements*.
- *Engagement teams* communicate to the *firm* information about:
  - The client that is obtained during the performance of an *engagement* that may have caused the *firm* to decline the client relationship or specific *engagement* had that information been known prior to accepting or continuing the client relationship or specific *engagement*.
  - The operation of the *firm's* policies and procedures (e.g., concerns about the *firm's* processes for assigning *personnel* to *engagements*), which in some cases, may indicate a deficiency in the *firm's* *SOQM*.
- *Engagement teams* communicate information to the *engagement quality reviewer* or individuals providing consultation.

### Communication with external parties

9.1 A5 In addition to the *firm* communicating information to or within the *firm's network* or to a *service provider*, the *firm* may need to obtain information from the *network*, a *network firm* or a *service provider* that supports the *firm* in the design, implementation and operation of its *SOQM*.

**Example** of information obtained by the *firm* from within the *firm's network*:

The *firm* obtains information from the *network* or other *network firms* about clients of other *network firms*, where there are independence requirements that affect the *firm*.

9.1A6 **Examples** of when law, regulation or *professional standards* (including the *code*) may require the *firm* to communicate information to external parties:

- The *firm* becomes aware of non-compliance with laws and regulations by a client, and the *code* requires the *firm* to report the non-compliance with laws and regulations to an appropriate authority outside the client entity, or to consider whether such reporting is an appropriate action in the circumstances.
- Securities law or regulation requires the *firm* to communicate certain matters to those charged with governance.

9.1A7 In some cases, law or regulation may preclude the *firm* from communicating information related to its *SOQM* externally.

**Examples** of when the *firm* may be precluded from communicating information externally:

- Privacy or secrecy law or regulation prohibits disclosure of certain information.
- Law, regulation or relevant *professional standards* (including the *code*) include provisions addressing the duty of confidentiality.

### Monitoring and remediation

#### Monitoring and remediating the firm's quality management policies and procedures

R10.1 **The *firm* shall establish a *monitoring and remediation* process designed to provide it with *reasonable assurance* that the policies and procedures relating to the *SOQM* are relevant, adequate, and operating effectively. This process shall:**

- a) include an ongoing consideration and evaluation of the *firm's SOQM* including, on a cyclical basis determined by the *firm*, *inspection* of at least one completed *engagement* across the range of services provided for each *engagement partner*;
- b) require that appropriate remedial actions be taken in respect to identified deficiencies.

R10.2 **The *firm* shall establish and maintain policies or procedures that:**

- a) Require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively; and
- b) Address the objectivity of the individuals performing the monitoring activities including prohibiting the *engagement team* members or the *engagement quality reviewer* (if any) of an *engagement* from performing any *inspection* of that *engagement*.

R10.2A1 In some circumstances, for example, in the case of a less complex *firm*, there may not be *personnel* who have the competence, capabilities, time or objectivity to perform the monitoring activities. In these circumstances, the *firm* may use network services or a *service provider* to perform the monitoring activities.

10.2A2 The purpose of monitoring compliance with quality management policies and procedures is to provide an evaluation of:



- Adherence to *professional standards* (including the *code*) and applicable laws and regulations;
- Whether the *SOQM* has been appropriately designed and effectively implemented; and
- Whether the *firm's* quality management policies and procedures have been appropriately applied, so that *engagement reports* that are issued by the *firm* or *engagement partners* are appropriate in the circumstances.

10.2A3 The *firm's* monitoring activities may comprise a combination of ongoing monitoring activities and periodic monitoring activities. Ongoing monitoring activities are generally routine activities, built into the *firm's* processes and performed on a real-time basis, reacting to changing conditions and might include an *engagement quality review*. Periodic monitoring activities are conducted at certain intervals by the *firm*. In most cases, ongoing monitoring activities provide information about the *SOQM* in a timelier manner.

10.2A4 Ongoing consideration and evaluation of the *SOQM* include matters such as the following:

- Analysis of:
  - New developments in *professional standards* (including the *code*) and applicable laws and regulations, and how they are reflected in the *firm's* policies and procedures where appropriate.
  - Written confirmation of compliance with policies and procedures on independence (if required).
  - Continuing professional development, including training.
  - Decisions related to acceptance and continuance of client relationships and specific *engagements*.
  - The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the *SOQM* and whether remedial actions to address previously identified deficiencies were effective.
  - Other relevant information, including complaints and allegations about failures to perform work in accordance with *professional standards* (including the *code*) and laws and regulations or non-compliance with the *firm's* quality management policies and procedures, information from *external inspections*, the *firm's network*, *service providers*, professional bodies and regulatory authorities.
- Determination of remedial 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 *SOQM*, in the level of understanding of the *SOQM*, or compliance with it.
- Follow-up by appropriate *firm personnel* so that necessary modifications are promptly made to the quality management policies and procedures.

- 10.2A5 *Inspection* cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the *inspection* cycle is organised, including the timing of selection of individual *engagements*, depends on many factors, such as the following:
- The size of the *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 authorised to conduct their own *inspections* or whether only the head office may conduct them).
  - The nature and complexity of the *firm's* practice and organisation.
  - The risks associated with the *firm's* clients and specific *engagements*.
- 10.2A6 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* programme. However, an independent external *inspection* programme does not act as a substitute for the *firm's* own internal monitoring programme.
- 10.2A7 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 management policies and procedures, or who may be involved in performing the *engagement quality review*. A *firm* with a limited number of persons may choose to use a *service provider* or another *firm* to carry out *engagement inspections* and other monitoring procedures. Alternatively, the *firm* may establish arrangements to share resources with other appropriate organisations to facilitate monitoring activities.

### Evaluating, communicating and remedying identified deficiencies

- R10.3 **The *firm* shall evaluate the effect of deficiencies noted as a result of the monitoring and remediation process and determine whether they are either:**
- a) **instances that do not necessarily indicate that the *firm's* SOQM is insufficient to provide it with *reasonable assurance* that it complies with *professional standards* (including the *code*) and applicable laws and regulations, and that the *engagement reports* issued by the *firm* or *engagement partners* are appropriate in the circumstances; or**
  - b) **systemic, repetitive or other significant deficiencies that require prompt appropriate remedial action.**
- 10.3A All *firms* should identify the underlying circumstance(s) that caused the deficiencies in order to ensure that appropriate remedial actions are taken. More complex *firms* might need to undertake a formal root cause analysis<sup>12</sup> in order to properly identify those underlying circumstances.

<sup>12</sup> e.g. paragraphs 41 – 42 of PES 3

- R10.4 **The *firm* shall communicate to relevant *engagement partners* and other appropriate *personnel* deficiencies noted as a result of the *monitoring and remediation* process and recommendations for appropriate remedial action.**
- R10.5 **Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:**
- a) **taking appropriate remedial action in relation to an individual *engagement* or member of *personnel*;**
  - b) **the communication of the findings to those responsible for training and professional development;**
  - c) **changes to the SOQM (including quality management 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.**
- 10.5A In circumstances when the *firm* determines that the underlying circumstance(s) that caused a deficiency relates to a resource provided by a *service provider*, the *firm* may also:
- Consider whether to continue using the resource provided by the *service provider*.
  - Communicate the matter to the *service provider*.
- The *firm* is responsible for addressing the effect of the identified deficiency related to a resource provided by a *service provider* on the *SOQM* and taking action to prevent the deficiency from recurring with respect to the *firm's SOQM*. However, the *firm* is not ordinarily responsible for remediating the identified deficiency on behalf of the *service provider* or further investigating the underlying circumstances that caused the identified deficiency at the *service provider*.
- R10.6 **The individual(s) assigned operational responsibility for the *monitoring and remediation* process shall evaluate whether the remedial actions:**
- **Are appropriately designed to address the identified deficiencies and their related underlying circumstance(s) that caused the deficiencies and determine that they have been implemented; and**
  - **Implemented to address previously identified deficiencies are effective.**
- R10.7 **The *firm* shall establish and maintain policies and procedures to address cases where the results of the monitoring procedures indicate that an *engagement report* may be inappropriate or that procedures were omitted during the performance of the *engagement*. Such policies and procedures shall require the *firm* to determine what further action is appropriate to comply with relevant *professional standards* (including the *code*) and laws and regulations and to consider whether to obtain legal advice.**

- R10.8 **The *firm* shall communicate at least annually the results of the *monitoring and remediation* of its *SOQM* to *engagement partners* and other appropriate individuals within the *firm*, including the individual(s) assigned ultimate responsibility and accountability for the *SOQM*. This communication shall 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 shall include the following:**
- a) A description of the monitoring procedures performed.
  - b) The conclusions drawn from the monitoring procedures.
  - c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the remedial actions taken to resolve or amend those deficiencies.

### Complaints and allegations

- R10.9 **The *firm* shall establish and maintain policies and procedures designed to provide it with *reasonable assurance* that it deals appropriately with:**
- a) **complaints and allegations that the work performed by the *firm* fails to comply with *professional standards* (including the *code*) and applicable laws and regulations; and**
  - b) **allegations of non-compliance with the *firm's SOQM*.**

**As part of this process, the *firm* shall establish and maintain clearly defined channels for *firm personnel* to raise any concerns in a manner that enables them to come forward without fear of reprisals.**

- 10.9A Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the *firm*. They may be made by *firm personnel*, clients or other third parties. They may be received by *engagement team* members or other *firm personnel*. They may also be made by NZICA in accordance with the NZICA Rules.

- R10.10 **If during the investigations into complaints and allegations, deficiencies in the design or operation of the *firm's* quality management policies and procedures or non-compliance with the *firm's SOQM* by an individual or individuals are identified, the *firm* shall take appropriate actions as set out in paragraph R10.5.**

- 10.10A1 Policies and procedures established for the investigation of complaints and allegations may include, for example, that the *Principal* supervising the investigation:
- Has sufficient and appropriate experience;
  - Has authority within the *firm*; and
  - Is otherwise not involved in the *engagement*.

The *Principal* supervising the investigation may involve legal counsel as necessary.

- 10.10A2 It may not be practicable, in the case of *firms* with few *Principals*, for the *Principal* supervising the investigation not to be involved in the *engagement*. These small *firms*

and sole practitioners may use the services of a *service provider* such as another *firm* or a lawyer to carry out the investigation into complaints and allegations.

### Documentation of the system of quality management

- R11.1 **The *firm* shall prepare documentation of its SOQM that is sufficient to:**
- (a) Support a consistent understanding of the SOQM by *personnel*, including an understanding of their roles and responsibilities with respect to the SOQM and the performance of *engagements*;**
  - (b) Support the consistent implementation and operation of the policies and procedures; and**
  - (c) Provide evidence of the design, implementation and operation of the policies and procedures, to support the evaluation of the SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM.**
- 11.1A1 Documentation provides evidence that the *firm* complies with this Standard, as well as *professional standards* (including the *code*) and laws and regulation. It may also be useful for training *personnel* and *engagement teams*, ensuring the retention of organisational knowledge and providing a history of the basis for decisions made by the *firm* about its SOQM. It is neither necessary nor practicable for the *firm* to document every matter considered, or judgment made, about its SOQM. Furthermore, compliance with this Standard may be evidenced by the *firm* through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the SOQM.
- 11.1A2 Documentation may take the form of formal written manuals, checklists and forms, may be informally documented (e.g., e-mail communication or postings on websites), or may be held in IT applications or other digital forms (e.g., in databases). Factors that may affect the *firm's* judgments about the form, content and extent of documentation, including how often documentation is updated, may include:
- The complexity of the *firm* and the number of offices;
  - The nature and complexity of the *firm's* practice and organisation;
  - The nature of *engagements* the *firm* performs and the nature of the entities for whom *engagements* are performed;
  - The nature and complexity of the matter being documented, such as whether it relates to an aspect of the SOQM that has changed or an area of greater quality risk, and the complexity of the judgments relating to the matter; and
  - The frequency and extent of changes in the SOQM.
- In a less complex *firm*, it may not be necessary to have documentation supporting matters communicated because informal communication methods may be effective. Nevertheless, a less complex *firm* may determine it appropriate to document such communications in order to provide evidence that they occurred.
- 11.1A3 In some instances, an external oversight authority may establish documentation requirements, either formally or informally, for example, as a result of the outcome of *external inspection* findings. Relevant *professional standards* (including the *code*) may

also include specific requirements addressing documentation, for example, the *code* requires documentation of particular matters, including certain situations related to conflicts of interest and non-compliance with laws and regulations.

- R11.2 **In preparing documentation, the *firm* shall include:**
- (a) The identification of the individual(s) assigned ultimate responsibility and accountability for the *SOQM* and operational responsibility for the *SOQM*;**
  - (b) A description of the policies and procedures ;**
  - (c) Regarding the *monitoring and remediation* process:**
    - (i) Evidence of the monitoring activities performed;**
    - (ii) The evaluation of findings, and identified deficiencies and their related underlying cause(s);**
    - (iii) Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and**
    - (iv) Communications about *monitoring and remediation*; and**
  - (d) The basis for the conclusion reached by the individual(s) assigned ultimate responsibility and accountability for the *SOQM* about the effectiveness of the *SOQM*..**
- 11.2A The documentation may include information provided by the *network*, other *network firms*, or other structures or organisations within the *network* or *service providers*.
- R11.3 **The *firm* shall establish and maintain policies and procedures that require retention of documentation for a period of time sufficient to permit those performing *monitoring and remediation* procedures to evaluate the *firm*'s compliance with its *SOQM*, or for a longer period if required by law or regulation.**
- R11.4 **The *firm* shall establish and maintain policies and procedures requiring documentation of complaints and allegations and the responses to them.**

## PART 2 - Quality management for individual engagements

- 12.1 The objective of the *engagement partner* in Part 2 is to manage quality at the engagement level to obtain *reasonable assurance* that quality has been achieved such that:
- The *engagement* complies with *professional standards* (including the *code*) and applicable laws and regulations; and
  - Any *engagement report* issued is appropriate in the circumstances.

### System of quality management and role of engagement teams

- R13.1 **Within the context of the *firm's SOQM*, *engagement teams* shall implement quality management procedures that are applicable to the *engagement* and provide the *firm* with relevant information to enable the functioning of the *firm's SOQM*.**
- 13.1A Ordinarily, the *engagement team* may depend on the *firm's* policies or procedures in complying with the requirements of this Part, unless:
- The *engagement team's* understanding or practical experience indicates that the *firm's* policies or procedures will not effectively address the nature and circumstances of the *engagement*; or
  - Information provided by the *firm* or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the *firm's* monitoring activities, *external inspections* or other relevant sources, indicates that the *firm's* policies or procedures are not operating effectively).

Where these exceptions occur, the *engagement partner* must take appropriate action as specified by this Part.

- R13.2 **All quality management policies and procedures implemented in the performance of individual *engagements* shall be adequately documented in accordance with paragraph R3.3, and comply with the *engagement documentation* requirements in paragraphs R8.10, R8.11 and R8.12.**
- R13.3 **The *engagement partner* shall ensure that quality management policies and procedures relevant to the individual *engagement* are communicated to and understood by the *engagement team*, in accordance with the requirement in paragraph R3.3.**

### Quality management policies and procedures for individual engagements

- R13.4 **Quality management policies and procedures for individual *engagements* shall address each of the following elements:**
- Leadership.**
  - Professional standards* (including the *code*).**

- c) **Acceptance and continuance of client relationships and specific engagements.**
- d) **Resources.**
- e) **Engagement performance.**
- f) **Monitoring and remediation.**

### Leadership

- R14.1 **The *engagement partner* shall take overall responsibility for managing and achieving quality on the *engagement*, including taking responsibility for creating an environment for the *engagement* that emphasises the *firm's* culture and expected behavior of *engagement team* members. In doing so, the *engagement partner* shall be sufficiently and appropriately involved throughout the *engagement* such that the *engagement partner* has the basis for determining the *engagement report(s)* is appropriate in the circumstances.**
- 14.1A1 Part 1 requires the *firm* to establish and maintain policies and procedures that establish an internal culture that promotes ethical behaviour and emphasises the importance of quality.
- 14.1A2 In creating the environment described in paragraph R14.1, the *engagement partner* should take clear, consistent and effective actions - that reflect the *firm's* commitment to quality and establish and communicate the expected behavior of *engagement team* members, including emphasising:
- a) That all *engagement team* members are responsible for contributing to the management and achievement of quality at the *engagement* level;
  - b) The importance of professional ethics, values and attitudes to the members of the *engagement team*;
  - c) The importance of open and robust communication within the *engagement team*, and supporting the ability of *engagement team* members to raise concerns without fear of reprisal; and
  - d) The importance of each *engagement team* member *having an inquiring mind* throughout the *engagement*.
- 14.1A3 Being sufficiently and appropriately involved throughout the *engagement* when procedures, tasks or actions have been assigned to other members of the *engagement team* may be demonstrated by the *engagement partner* in different ways, including:
- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
  - Direction and supervision of the assignees.
  - Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs R18.2 and R18.3.



### Professional standards (including the code)

- R15.1 **The *engagement partner* shall have an understanding of the relevant *professional standards* (including the *code*), including those related to objectivity and independence (if required), that are applicable given the nature and circumstances of the *engagement*.**
- R15.2 **The *engagement partner* shall ensure that members of the *engagement team* understand the relevant *professional standards* (including the *code*) and consider whether they have complied with those *professional standards* (including the *code*) and have applied the policies and procedures developed by the *firm* to comply requirements in paragraph R5.1 as they relate to individual *engagements*.**
- R15.3 **Throughout the *engagement*, the *engagement partner* shall remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant *professional standards* (including the *code*) by members of the *engagement team*.**
- R15.4 **If matters come to the *engagement partner's* attention through the *firm's* *SOQM* or otherwise that indicate that members of the *engagement team* have not complied with relevant *professional standards* (including the *code*), the *engagement partner*, in consultation with others in the *firm*, shall determine the appropriate action.**
- 15.4A Appropriate actions may include, for example:
- Following the *firm's* policies or procedures regarding breaches of relevant *professional standards* (including the *code*), including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
  - Communicating with those charged with governance.
  - Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
  - Seeking legal advice.
  - Withdrawing from the *engagement* when withdrawal is possible under applicable law or regulation
- R15.5 **The *engagement partner* for an *engagement* for which independence is required shall form a conclusion on compliance with independence requirements that apply to the *engagement*. In doing so, the *engagement partner* shall:**
- g) obtain relevant information from the *firm* and, where applicable, *network firms*, to identify and evaluate circumstances and relationships that create threats to independence;**
  - h) evaluate information on identified breaches, if any, of the *firm's* independence policies and procedures to determine whether they create a threat to independence for the *engagement*; and**

- i) **take appropriate action to comply with *professional standards* (including the *code*).**

**The *engagement partner* shall promptly report to the *firm* any inability to resolve the matter with appropriate action.**

### Acceptance and continuance of client relationships and specific engagements

- R16.1 **The *engagement partner* shall be satisfied that the *firm*'s policies and procedures regarding the acceptance and continuance of client relationships and specific *engagements* have been followed and shall determine that conclusions reached in this regard are appropriate.**
- 16.1A Paragraph R6.2(a) requires the *firm* to obtain information considered 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. Information such as the following assists the *engagement partner* in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and specific *engagements* are appropriate:
- the integrity of the principal owners, key management and those charged with governance of the entity;
  - whether the *engagement team* is competent to perform the *engagement* and has the necessary capabilities, including time and resources;
  - whether the *firm* and the *engagement team* can comply with relevant *professional standards* (including the *code*); and
  - significant matters that have arisen during the current or previous *engagement*, and their implications for continuing the relationship.
- R16.2 **The *engagement partner* shall take into account information obtained in the acceptance and continuance process in planning and performing the *engagement* in accordance with the *professional standards* (including the *code*) and complying with the requirements of this Part.**
- R16.3 **If the *engagement partner* obtains information that would have caused the *firm* to decline the *engagement* had that information been available earlier, the *engagement partner* shall communicate that information promptly to the *firm*, so that the *firm* and the *engagement partner* can take the necessary action.**

### Resources

#### Human resources

- R17.1 **The *engagement partner* shall be satisfied that the *engagement team*, and any experts who are not part of the *engagement team*, collectively have the appropriate competence, capabilities and time to:**
- a) **perform the *engagement* in accordance with *professional standards* (including the *code*) and applicable laws and regulations; and**

**b) enable an *engagement report(s)* that is appropriate in the circumstances to be issued.**

- 17.1A1 The appropriate capabilities and competence expected of the *engagement team* as a whole are set out in paragraph 7.4A1
- 17.1A2 Before delegating any work to the *engagement team*, the *engagement partner* should consider the skills and professional competence of the members of the *engagement team* to decide the extent of direction, supervision and review required.
- 17.1A3 Where work is to be delegated within the *engagement team*, the delegation should be done in a manner that provides *reasonable assurance* that such work will be performed by persons who have the skills and competence required in the circumstances.

Other resources including technological, intellectual and service providers

- R17.2 **The *engagement partner* shall ensure that sufficient and appropriate resources to perform the *engagement* are assigned or made available to the *engagement team* in a timely manner, taking into account the nature and circumstances of the *engagement*, the *firm's* policies or procedures, and any changes that may arise during the *engagement*.**

- 17.2A Technological resources, intellectual resources and *services providers* are discussed at paragraphs 7.6A1-7.9A3 of part 1.

Insufficient or inappropriate resources

- R17.3 **If, as a result of complying with the requirements in paragraphs R17.1 and R17.2, the *engagement partner* determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the *engagement*, the *engagement partner* shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the *engagement*.**

- 17.3A If the resources assigned or made available are insufficient or inappropriate in the circumstances of the *engagement* and additional or alternative resources have not been made available, appropriate actions may include:
- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph 18.2A2).
  - Discussing an extension to deadlines for issuing the *engagement report(s)* with management or those charged with governance, when an extension is possible under applicable law or regulation.
  - Following the *firm's* policies or procedures for resolving differences of opinion if the *engagement partner* does not obtain the necessary resources for the *engagement*.
  - Following the *firm's* policies or procedures for withdrawing from the *engagement*.

Engagement performance

Direction supervision and review

- R18.1 **The *engagement partner* shall take responsibility for:**

- a) **the direction, supervision and review of the *engagement* to ensure compliance with *professional standards* (including the *code*) and applicable laws and regulations, including nature, timing and extent of those activities; and**
- b) **any *engagement report* being appropriate in the circumstances.**

18.1A1 Supervision is discussed at paragraph 8.1A3.

18.1A2 Direction of the *engagement team* involves informing the members of the *engagement team* of matters such as:

- Their responsibilities, including the need to comply with relevant *professional standards* (including the *code*), and to plan and perform the *engagement* with an inquiring mind.
- Responsibilities of respective *engagement partners* where more than one *engagement partner* is involved in the conduct of an *engagement*.
- The objectives of the work to be performed.
- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the *engagement*.

Discussion among members of the *engagement team* allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the *engagement team*.

18.1A3 Appropriate teamwork and training assist less experienced members of the *engagement team* to clearly understand the objectives of the assigned work.

18.1A4 Considerations relevant where a member of the *engagement team* with expertise in a specialist area is used is discussed at paragraph 18.5A below.

R18.2 **The *engagement partner* shall take responsibility for timely reviews being performed in accordance with the *firm's* review policies and procedures and apply the requirement in paragraph R8.2.**

18.2A Reviews are discussed at paragraph 8.1A4 and considerations relevant where a member of the *engagement team* with expertise in a specialist area is used is discussed at paragraph 18.5A.

R18.3 **Before the issue of the *engagement report(s)*, the *engagement partner* shall, through a review of the *engagement documentation* and discussion with the *engagement team*, be satisfied that sufficient and appropriate work has been performed for the *engagement report* to be issued and the *engagement report* itself is appropriate in the circumstances.**

18.3A1 Timely reviews of the following by the *engagement partner* at appropriate stages during the *engagement* allow significant matters to be resolved on a timely basis to the *engagement partner's* satisfaction before the issue of the *engagement report(s)*:

- Critical areas of judgement, especially those relating to difficult or contentious matters identified during the course of the *engagement*;
- Significant risks; and
- Other areas the *engagement partner* considers important.

The *engagement partner* need not review all *engagement documentation* but may do so. However, the *engagement partner* documents the extent and timing of the reviews.

18.3A2 An *engagement partner* taking over an *engagement* during the *engagement* may apply the review procedures as described in paragraph 18.3A1 to review the work performed to the date of a change in order to assume the responsibilities of an *engagement partner*.

### Consultation

R18.4 **The *engagement partner* shall:**

- take responsibility for the *engagement team* undertaking appropriate consultation on difficult or contentious matters or other matters requiring consultation;**
- be satisfied that members of the *engagement team* have undertaken appropriate consultation during the course of the *engagement*, both within the *engagement team* and between the *engagement team* and others at the appropriate level within or outside the *firm*;**
- be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and**
- determine that conclusions resulting from consultations have been implemented.**

18.4A Consultation is also discussed at paragraphs R8.4 – 8.4A6

### Considerations Relevant Where an Individual in the Engagement Team with Expertise in a Specialised Area is Used

18.5A Where a member of the *engagement team* with expertise in a specialised area is used, direction, supervision and review of that *engagement team* member's work may include matters such as:

- Agreeing with that member the nature, scope and objectives of that member's work; and the respective roles of, and the nature, timing and extent of communication between that member and other members of the *engagement team*.
- Evaluating the adequacy of that member's work including the relevance and reasonableness of that member's findings or conclusions and their consistency with other *engagement* work.

### High-risk engagements

R18.6 **Where an *engagement quality review* is performed for a high-risk *engagement*, the *engagement partner* shall:**

- determine that an *engagement quality reviewer* has been appointed;**

- b) **discuss significant matters arising during the *engagement*, including those identified during the *engagement quality review*, with the *engagement quality reviewer*; and**
- c) **not issue the *engagement report(s)* until the completion of the *engagement quality review*.**

18.6A *High-risk engagements* are discussed at paragraphs R8.5 – 8.6A2.

#### Differences of opinion

R18.7 **If differences of opinion arise within the *engagement team*, with those consulted or, where applicable, between the *engagement partner* and the *engagement quality reviewer* or individuals performing activities within the *firm's SOQM*, the *engagement team* shall follow the *firm's* policies and procedures for dealing with and resolving differences of opinion.**

18.7A In some circumstances, the *engagement partner* may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the *engagement partner* may include, for example:

- Seeking legal advice; or
- Withdrawing from the *engagement*, when withdrawal is possible under applicable law or regulation.

R18.8 **The *engagement partner* shall:**

- a) **Take responsibility for differences of opinion being addressed and resolved in accordance with the *firm's* policies or procedures;**
- b) **Determine that conclusions reached are documented and implemented; and**
- c) **Not issue the *engagement report(s)* until any differences of opinion are resolved.**

#### Monitoring and remediation

R19.1 **The *engagement partner* shall obtain and consider the results of the *firm's monitoring and remediation* process and determine whether deficiencies noted in those results may affect the *engagement* and take appropriate action.**

19.1A1 Paragraph 10.1 requires the *firm* to establish a *monitoring and remediation* process to provide it with *reasonable assurance* that the policies and procedures relating to the *SOQM* are relevant, adequate and operating effectively.

19.1A2 In considering deficiencies that may affect the *engagement*, the *engagement partner* may have regard to measures the *firm* took to rectify the situation that the *engagement partner* considers are sufficient in the context of that *engagement*.

19.1A3 A deficiency in the *firm's SOQM* does not necessarily indicate that a particular *engagement* was not performed in accordance with *professional standards* (including the *code*) and applicable laws and regulations, or that the *engagement report(s)* was not appropriate.

R19.2 **The *engagement partner* shall remain alert throughout the *engagement* for information that may be relevant to the *firm's monitoring and remediation process* and communicate such information to those responsible for the process.**

#### Documentation

R20.1 **The *engagement team* shall include in the *engagement documentation*:**

- a) **Issues identified with respect to compliance with relevant *professional standards* (including the *code*) and laws and regulations and how they were resolved.**
- b) **Conclusions on compliance with objectivity/independence requirements that apply to the *engagement*, and any relevant discussions with the *firm* that support these conclusions.**
- c) **Conclusions reached regarding the acceptance and continuance of client relationships and *engagements*.**
- d) **The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the *engagement*.**
- e) **If the *engagement* is subject to an *engagement quality review*, that the *engagement quality review* has been completed before the issue of the *engagement report(s)*.**

20.1A Documentation of consultation with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

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

# Glossary

Defined terms are shown in the body of the standard in *italics*.

For the purpose of this standard:

**Assurance engagement** – An *engagement* in which a *member in public practice* aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the *responsible party* about the *subject matter information* (that is, the outcome of the measurement or evaluation of an *underlying subject matter* against criteria).

(ISAE (NZ) 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and Explanatory Guide (EG) Au1 *Overview of Auditing and Assurance Standards* provides a general description of assurance engagements to which *International Standards on Auditing (New Zealand)* (ISAs (NZ)), *International Standards on Review Engagements (New Zealand)* (ISREs (NZ)), *New Zealand Standard on Review Engagements (NZ SRE)* *International Standards on Assurance Engagements (New Zealand)* (ISAEs (NZ)), and *Standards on Assurance Engagements* (SAEs) apply.)

**Code** - The *NZICA Code of Ethics* issued by the New Zealand Regulatory Board of the New Zealand Institute of Chartered Accountants

**Engagement** – An agreement, whether written or otherwise, between a *member in public practice* and a client relating to the provision of *professional services* by a *member in public practice*.

**Engagement documentation** – The record of work performed, results obtained, and conclusions the Member reached (terms such as “working papers” or “work papers” are sometimes used).

**Engagement partner** – The *Principal* or other individual, appointed by the *firm*, who is responsible for the *engagement* and its performance, and for the *engagement report(s)* that is issued on behalf of the *firm*, and who has the appropriate authority from NZICA<sup>13</sup>.

**Engagement quality review** – An objective evaluation of the significant judgments made by the *engagement team* and the conclusions reached thereon, performed by the *engagement quality reviewer* and completed before the issue of the *engagement report(s)*.

**Engagement quality reviewer** - a *Principal* or other individual in the *firm*, or a service provider, with sufficient and appropriate knowledge, skills, experience and authority to objectively evaluate the significant judgements the *engagement team* made and the conclusions it reached in formulating the *engagement report(s)*.

**Engagement report(s)** – The results of the *engagement*, for example, without limitation: financial statements, tax returns or other types of completed documentation; accounting opinions, tax opinions or other types of advice; systems implementation, the provision of managed services or any other type of consulting or outsourcing service.

<sup>13</sup> i.e., a certificate of public practice or other approval or license issued by NZICA



**Engagement team** – All *Principals* and *staff* performing the *engagement*, and any other individuals who perform procedures on the *engagement*, excluding an external expert

**External inspections** – *Inspections* or investigations, undertaken by an external oversight authority, related to the *firm’s SOQM* or *engagements* performed by the *firm*.

**Firm** – A sole practitioner, partnership, or other form of entity through which a *Member* undertakes *engagements*.<sup>14</sup>

**Have an inquiring mind** – Is described in paragraph R120.5A1 of the *code*.

**Inspection** – In relation to completed *engagements*, procedures designed to provide evidence of compliance by *engagement teams* with the *firm’s* quality management policies and procedures.

**Member**<sup>15 16 17 18</sup> – An individual who is a Member of the New Zealand Institute of Chartered Accountants in accordance with the New Zealand Institute of Chartered Accountants Rules.

**Members in public practice** – A *Member*, irrespective of membership designation or functional classification (for example, audit, tax or consulting) in a *firm* that provides *professional services* or otherwise provides *professional services* to the public.

*The term “member in public practice” is also used to refer to a firm of members in public practice.*

**Monitoring and remediation** – A process comprising an ongoing consideration, evaluation and remediation of the *firm’s SOQM*, including a periodic *inspection* of a selection of completed *engagements*, designed to provide the *firm* with *reasonable assurance* that its *SOQM* is effective.

**Network firm** – A *firm* or entity that belongs to the *firm’s network*.

**Network** – A larger structure:

- (a) That is aimed at cooperation; and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

<sup>14</sup> The definition of “firm” in other relevant *professional standards* (including the *code*) may differ from the definition set out in this standard.

<sup>15</sup> An insolvency practitioner who is licensed by NZICA but is not a *Member* of NZICA is also required to comply with this standard as if they were a *Member*. This is in accordance with the Practitioner Compliance Agreement the insolvency practitioner entered into with NZICA.

<sup>16</sup> A qualified statutory accountant who is recognised by NZICA in accordance with sections 36S and 36T of the Financial Reporting Act 2013 is also required to comply with this standard as if they were a *Member*. This is in accordance with the Qualified Statutory Accountants Compliance Agreement the qualified statutory accountant entered into with NZICA.

<sup>17</sup> A non-member principal who is permitted to practice with *Members* pursuant to Appendix IV, Rule 3.1 of the NZICA Rules is also required to comply with this standard as if they were a *Member*. This is in accordance with the Non-member Principal Compliance Agreement the non-member principal entered into with NZICA.

<sup>18</sup> A member of CA ANZ who does not reside in New Zealand but who practices the profession of accountancy in New Zealand is also required to comply with this standard pursuant to Rule 3.6 of the NZICA Rules and By-law 38A of the CA ANZ By-laws.

**Principal** – A person having direct or indirect ownership interest in a practice entity and a governance role in that same structure in the nature of a shareholder and director of a company, a partner in a partnership, a person with the power of appointment of trustees, or a trustee in respect of a trust.

**Personnel** – *Principals and staff in the firm.*

**Professional activity** – An activity requiring accountancy or related skills undertaken by a *Member* including, accounting, auditing, tax, management consulting, and financial management.

**Professional judgment** – The application of relevant training, knowledge and experience, within the context of *professional standards* (including the *code*), in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the *firm's SOQM*.

This term is further described in paragraph R120.5 A4 - A5 of the *code*

**Professional services** – *Professional activities* performed for clients

**Professional standards** - Professional and ethical standards<sup>19</sup> issued by the New Zealand Regulatory Board of the New Zealand Institute of Chartered Accountants.

**Public interest** - The collective well-being of the community and institutions the profession serves

**Reasonable assurance** – In the context of this Standard, a high, but not absolute, level of assurance.<sup>20</sup>

**Related services** - Services to perform agreed upon procedures or other non-assurance work that may ordinarily be carried out by an assurance practitioner as prescribed by the External Reporting Board or the New Zealand Auditing and Assurance Board

**Responsible party** - In an *assurance engagement*, the party responsible for the *underlying subject matter*.

**Service provider** (in the context of this Standard) – An individual or organisation external to the *firm* that provides a resource that is used in the *SOQM* or in the performance of *engagements*. Service providers exclude the *firm's network*, *other network firms* or other structures or organisations in the *network*

**Staff** – Professionals, other than *Principals*, including any subject matter experts the *firm* employs.

**System of quality management (SOQM)** – A system designed, implemented and operated by a *firm* to provide the *firm* with *reasonable assurance* that:

- (a) The *firm* and its *personnel* fulfill their responsibilities in accordance with *professional standards* (including the *code*) and applicable laws and regulations, and conduct *engagements* in accordance with such standards and requirements; and

<sup>19</sup> As set out in *NZICA Professional and Ethical Standards: Due Process and Working Procedures*

<sup>20</sup> This is because there are inherent limitations of a *SOQM*. Such limitations include that human judgment in decision making can be faulty and that breakdowns in a *firm's SOQM* may occur, for example, due to human error or behavior or failures in information technology (IT) applications.

(b) *Engagement reports* issued by the *firm* or *engagement partners* are appropriate in the circumstances.

**Subject matter information** - The outcome of the measurement or evaluation of the *underlying subject matter* against the criteria, i.e., the information that results from applying the criteria to the *underlying subject matter*.

**Underlying subject matter** - *The phenomenon that is measured or evaluated by applying criteria*

## Conformity with International Pronouncements

The International Federation of Accountants (IFAC) published the International Auditing and Assurance Board's (IAASB) new suite of quality management standards in December 2020: ISQM 1: *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2: *Engagement Quality Reviews*; and ISA 220 (revised): *Quality Management for an Audit of Financial Statements*.

The New Zealand Auditing and Assurance Standards Board (NZAuASB) has updated its quality management standards PES-3: *Quality Management for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* and ISA (NZ) 220 (revised): *Quality Management for an Audit of Financial Statements* and created a new quality management standard PES-4: *Engagement Quality Reviews* to be consistent with these IAASB Quality Standards.

Paragraph 1.12A of this standard describes how this standard is intended to interact with the NZAuASB quality management standards (and by extension, the standards of IAASB).

The Australian Accounting Professional and Ethical Standards Board (APESB) has issued APES 320: *Quality Management for Firms* which is similar to PS-1 but designed to interact with other APESB pronouncements, to address matters specific to the Australian environment and to ensure compliance with Australian laws and regulations. Differences between PS-1 and APES 320 include:

- PS-1 refers to NZICA pronouncements and New Zealand laws and regulations and other matters applicable to the New Zealand environment (for example, NZICA maintains and updates material, including the items bullet pointed below, in order to assist it to meet its obligations under the NZICA Act 1996) whereas APES 320 refers to APESB pronouncements and Australian laws and regulations and other matters applicable to the Australian environment (for example, its' pronouncements that address associated matters including APES 325 *Risk Management for Firms*; APES GN 30 *Outsourced Services*; etc.);
- Part 1 of PS-1 includes more specific requirements and application material regarding the monitoring and remediation process (including requiring an annual assessment of the SOQM by the individual(s) assigned ultimate responsibility and accountability for the SOQM) and documentation of the SOQM. This is consistent with material contained in the extant standard - updated for relevant changes to the IAASB/NZAuASB pronouncements. APES 320 requirements and application material on these same topics remains more high level;
- PS-1 continues to include requirements and application material regarding quality management for individual engagements (Part 2) - updated for relevant changes to the IAASB/NZAuASB pronouncements. APES320 does not include these specific requirements or application material.

## Acknowledgement of APESB

NZICA gratefully acknowledges the publications of APESB listed below which provided insights that helped inform some of NZICA's approach to the development this standard:

- APESB, February 2022, APES 320: *Quality Management for Firms that provide Non-Assurance Services* accessible from <https://apesb.org.au/standards-guidance/quality-management-for-firms-that-provide-non-assurance-services/>
- APESB, February 2022, Agenda Paper item 3 (7 February 2022 meeting): Proposed Re-issue of APES 320 (including attached material presented) assessable from <https://apesb.org.au/meetings/board-meetings/>
- APESB, September 2021, Exposure Draft 05/21 APES 320: *Quality Management for Firms (that provide Non-Assurance Services)* accessible from <https://apesb.org.au/quality-management/>
- APESB, August 2021, Agenda paper item 7 (6 September 2021 meeting): *Proposed revisions to APES 320 Quality Control for Firms* (including attached material presented) accessible from <https://apesb.org.au/meetings/board-meetings/>
- APESB, May 2021, Agenda paper item 4 (10 June 2021 meeting): *Proposed revisions to APES 320 Quality Management for Firms* (including attached material presented) accessible from <https://apesb.org.au/meetings/board-meetings/>
- APESB, February 2021, Agenda paper item 5 (4 March 2021 meeting): *Project update on Quality Management Standards (ISQM 1 & 2/ASQM 1 & 2)* accessible from <https://apesb.org.au/meetings/board-meetings/>
- APESB, APES GN 30 Outsourced Services, REVISED: June 2021 accessible from <https://apesb.org.au/standards-guidance/>