

PS-1 Quality Control

New Zealand Institute of Chartered Accountants

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IMPORTANT NOTE:

The NZICA Code of Ethics (effective from 15 June 2019) (“revised Code of Ethics”) replaces the NZICA Code of Ethics (application 07/2017) (“extant Code of Ethics”). Consequently, references to provisions of the extant Code of Ethics in this Professional Standard should be read as references to the equivalent provisions in the revised Code of Ethics *[noted in the mapping table below – for ease of reference]*. Where the text of this Professional Standard is not consistent with the revised Code of Ethics, the revised Code of Ethics shall override the text of this Professional Standard.

Mapping table

Extant Code of ethics	Revised Code of Ethics
NZ 1.2	NZ R1.2 – NZ R1.5
130.1(b)	NZ R113.1(b)
140.7(c)	114.1 A1
NZ140.09	NZ R 100.5
210.9 – NZ210.14	R320.4 – R320.8
290.13 – 290.24	400.50 A1 – 400.54 A1
290.150 – 290.155	Section 540

PS-1 Quality Control

Professional Standard 1

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PS-1

Issued by the Board of the New Zealand Institute of Chartered Accountants

[PS-1](#), *Quality Control* is based on 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" of the International Auditing and Assurance Standards Board (IAASB), published by the International Federation of Accountants (IFAC) in 2008 and is used with the permission of IFAC.

Compliance with this Standard is mandatory in terms of paragraph [130.1\(b\)](#) of the *Code of Ethics*.

This Standard is to be read in conjunction with the *Code of Ethics*.

Introduction

Purpose

1. The purpose of this Standard is to establish standards and provide guidance on the responsibilities of firms regarding a system of quality control in respect of:
 - (a) Work generally undertaken by the firm; and
 - (b) Work delegated to persons in the engagement team on individual engagements.

2. Requirements and guidance on the responsibilities of firm personnel regarding quality control procedures for individual engagements (other than audits of historical financial information) are set out in paragraphs [67](#) to [89](#) and [A84](#) to [A108](#) of this Standard. Requirements and guidance on the responsibilities of firm personnel regarding quality control procedures for audits of historical financial information are contained in ISA (NZ) 220⁷
3. A system of quality control consists of policies designed to achieve the objectives set out in paragraph [14](#) and the procedures necessary to implement and monitor compliance with those policies.
4. The delivery of quality professional services to a client is a prime objective for members and firms. The establishment of a system designed to provide reasonable assurance regarding the quality of engagements is a logical extension of that objective.
5. Policies and procedures established by a firm to meet these objectives and to comply with the requirements of this Standard should be designed in response to the types of activities the firm undertakes. The design of those policies and procedures will vary with factors such as the size and nature of the firm or practice, its operating characteristics including whether it is part of a network of firms, its geographic dispersion, and appropriate cost/benefit considerations. Accordingly, the policies and procedures individual firms adopt will vary, as will the extent of their documentation and the manner and extent of their communication to the engagement team and personnel of the firm.
6. This Standard applies to all firms and to individual engagements undertaken by firms. The nature and extent of the policies and procedures developed by an individual firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.
7. This Standard contains the objectives of the firm in following the Standard, and requirements designed to enable the firm to meet those stated objectives. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph [10](#), introductory material that provides context relevant to a proper understanding of the Standard and definitions.
8. The objectives provide the context in which the requirements of this Standard are set, and are intended to assist the firm in:
 - (a) Understanding what needs to be accomplished; and
 - (b) Deciding whether more needs to be done to achieve the objectives.
9. The requirements of this Standard are expressed using "shall."

10. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- (a) Explain more precisely what a requirement means or is intended to cover; and
- (b) Include examples of policies and procedures that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this Standard. Where appropriate, additional considerations specific to the public sector or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this Standard. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this Standard.

Effective date

11. Firms are required to establish systems of quality control in compliance with this Standard by 1 July, 2010. This Standard is effective for individual engagements (other than audits of historical financial information) beginning on or after 1 July, 2010.

Background

Quality of Work Performed by Members and Firms

12. Increasing attention is being given to work performed by members in the context of ethical and professional standards and accepted industry practice. Members are expected to provide quality services in a manner that demonstrates a high level of professionalism consistent with the fundamental principles of ethical conduct expected of professional accountants.

Benefits of Quality Control

13. A well-designed and effective system of quality control should not only ensure compliance with professional and engagement standards and regulatory and legal requirements, but also provide a framework for firms when considering issues related to quality, and enhance the reliability and overall quality of work performed. The major benefits of an effective system of quality control are as follows:
- (a) Benefits to clients and the public:
 - (i) higher quality service; and
 - (ii) increased reliability of the final product.
 - (b) Benefits to the accounting profession:
 - (i) assists in distinguishing the work of members from that of other providers of accounting services;
 - (ii) in strengthening the quality controls within firms themselves, the quality assurance processes of the profession overall are significantly strengthened; and
 - (iii) maintaining public confidence in the quality of work undertaken by the members of the profession as represented by members of the Institute.
 - (c) Benefits to the firm:
 - (i) improved internal communication;
 - (ii) reduction in lost time due to re-work or ineffective and/or inefficient practices;
 - (iii) early identification of problems;
 - (iv) reduced risk of litigation;
 - (v) client retention; and
 - (vi) increased confidence that controls are in place and that the risk of error is reduced.

Objectives

14. The objectives of the firm are to:
- (a) Establish and maintain a system of quality control to provide it with reasonable assurance that:
 - (i) The firm and its personnel comply with professional and engagement standards and applicable legal and regulatory requirements; and
 - (ii) Reports issued by the firm or engagement partners are appropriate in the circumstances.
 - (b) Implement quality control procedures at the engagement level to provide it with reasonable assurance that:
 - (i) The engagement complies with professional and engagement standards and applicable legal and regulatory requirements; and
 - (ii) Any engagement report issued is appropriate in the circumstances.

Definitions

15. In this Professional Standard, the following terms have the meanings attributed below:

Date of report means the date selected by the member to date the report.

Assurance engagement means an engagement in which a member expresses a conclusion in the form of an opinion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Engagement documentation means the record of work performed, results obtained, and conclusions the member reached (terms such as "working papers" or "workpapers" are sometimes used).

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

Considerations Specific to the Public Sector

Where a statutory officer (such as the Auditor-General) appoints an employee, a Chartered Accountant, or other suitably qualified person (appointed auditor) to perform audits or other assurance services on that officer's behalf, for the purposes of this Standard it is the appointed auditor who effectively discharges the obligations of the engagement partner. Any reference to the engagement partner should be interpreted accordingly.

Engagement quality control review means a process designed to provide an objective evaluation, on or before the date the report is issued, of the significant judgements the engagement team made and the conclusions it reached in formulating the report.

Engagement quality control reviewer means in respect of an engagement for which a report is required, a person in the firm, a suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the report.

Engagement team means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

Firm means a sole practitioner, partnership, corporate practice or other form of entity through which a member undertakes engagements.

Considerations Specific to the Public Sector

Where a statutory officer (such as the Auditor-General) appoints an employee, a Chartered Accountant, or other suitably qualified person (appointed auditor) to perform audits or other assurance services on that officer's behalf, for the purposes of this Standard the term "firm" refers to the combination of the statutory officer, the appointed auditor, and, if applicable, the firm of which the appointed auditor is a partner, member or employee.

FMC reporting entity considered to have a higher level of public accountability means a FMC reporting entity, or class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- under section 461K of the Financial Markets Conduct Act 2013; or
- by notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Inspection means, in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

Member means a member of the New Zealand Institute of Chartered Accountants.

Monitoring means a process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

Network means a larger structure:

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

Network firm means a firm or entity that belongs to a network.

Partner means any individual with authority to bind the firm with respect to the performance of an engagement.

Personnel means partners and staff.

Professional standards means Professional Standards and Engagement Standards issued by the Council³ or the Board of the Institute, and relevant ethical requirements contained in the Institute's *Code of Ethics*.

Public entity has the meaning as defined in section 5(1) of the Public Audit Act 2001.

Public sector auditor means the Auditor-General or an auditor appointed by the Auditor-General to perform audits or other assurance services for public entities.

Reasonable assurance means, in the context of this Standard, a high, but not absolute, level of assurance.

Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which is the *Code of Ethics*.

Staff means professionals, other than partners, including any experts the firm employs.

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

Requirements

Applying, and Complying with, Relevant Requirements

16. Personnel within the firm responsible for establishing and maintaining the firm's system of quality control shall have an understanding of the entire text of this Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

17. The firm shall comply with each requirement of this Standard unless, in the circumstances of the firm, the requirement is not relevant to the services provided or to the individual engagement undertaken by the firm.

(Ref: Para. [A1](#))

18. The requirements are designed to enable the firm to achieve the objectives stated in this Standard. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objectives. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this Standard to meet the stated objectives.

Establishment of a System of Quality Control

19. Quality control policies and procedures shall be established and implemented at both the level of the firm and on individual engagements.

20. The firm shall establish a system of quality control designed to provide reasonable assurance that the firm and its personnel comply with professional and engagement standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.
21. The engagement team shall implement quality control procedures which, in the context of the policies and procedures of the firm, are appropriate to individual engagements.
22. The quality control policies and procedures shall be documented and communicated to the firm's personnel, and to the engagement team for individual engagements. They shall be communicated in a manner that provides reasonable assurance that the policies and procedures are understood and implemented.

(Ref: Para. [A2-A3](#))

Firm Level Systems of Quality Control

Elements of a System of Quality Control

23. The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:
- (a) Leadership responsibilities for quality within the firm.
 - (b) Relevant ethical and professional requirements.
 - (c) Acceptance and continuance of client relationships and specific engagements.
 - (d) Human resources.
 - (e) Engagement performance.
 - (f) Monitoring.

Leadership Responsibilities for Quality within the Firm

24. The firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements. Such policies and procedures shall require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control.
- (Ref: Para. [A4-A5](#))
25. The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

(Ref: Para. [A6](#))

Relevant Ethical and Professional Requirements

26. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with:
- (a) the relevant ethical requirements as set out in the *Code of Ethics* issued by the Institute; and
 - (b) the Institute's Rules.
- (Ref: Para. [A7-A15](#))

Firms Performing Engagements for which Independence is Required

27. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by the *Code of Ethics*. Such policies and procedures shall enable the firm to: (Ref: Para. [A13](#))
- (a) communicate its independence requirements to its personnel and, where applicable, others subject to them; and
 - (b) identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.
28. Such policies and procedures shall require: (Ref: Para. [A13](#))
- (a) engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
 - (b) personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and
 - (c) the accumulation and communication of relevant information to appropriate personnel so that:
 - (i) the firm and its personnel can readily determine whether they satisfy independence requirements;
 - (ii) the firm can maintain and update its records relating to independence; and
 - (iii) the firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.
29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for: (Ref: Para. [A13](#))
- (a) personnel to promptly notify the firm of independence breaches of which they become aware;
 - (b) the firm to promptly communicate identified breaches of these policies and procedures to:
 - (i) the engagement partner who, with the firm, needs to address the breach; and
 - (ii) other relevant personnel in the firm and, where appropriate, the network and those subject to the independence requirements who need to take appropriate action; and
- (Ref: Para. [A14](#))

- (c) prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph [29\(b\)\(ii\)](#) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

30. At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the *Code of Ethics*.

(Ref: Para. [A13](#), [A16](#))

31. The firm shall establish policies and procedures:(Ref: Para. [A13](#))

- (a) setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and

(Ref: Para. [A14](#))

- (b) requiring, for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with the *Code of Ethics*⁴ and any other regulatory requirements that apply.

(Ref: Para. [A17-A22](#))

Acceptance and Continuance of Client Relationships and Specific Engagements

32. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:(Ref: Para. [A23](#))

- (a) is competent to perform the engagement and has the capabilities, including time and resources, to do so;

(Ref: Para. [A24](#), [A29](#))

- (b) can comply with relevant ethical and professional requirements; and
- (c) has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

(Ref: Para. [A25-A26](#), [A29](#))

33. Such 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.

(Ref: Para. [A27](#), [A29](#))
 - (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.
34. The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures shall include consideration of:
- (a) the professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
 - (b) the possibility of withdrawing from the engagement or from both the engagement and the client relationship.

(Ref: Para. [A28-A29](#))

Human Resources

35. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:
- (a) perform engagements in accordance with engagement standards and applicable legal and regulatory requirements; and
 - (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

(Ref: Para. [A30-A35](#))

Assignment of Engagement Teams

36. The firm shall assign responsibility for each engagement to an engagement partner and shall establish 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; and
 - (c) the responsibilities of the engagement partner are clearly defined and communicated to that partner.

(Ref: Para. [A36](#))

37. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, capabilities and time to:
- (a) perform engagements in accordance with engagement standards and applicable legal and regulatory requirements; and
 - (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
- (Ref: Para. [A37-A38](#))

Engagement Performance

38. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with engagement standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Such policies and procedures shall include:
- (a) matters relevant to promoting consistency in the quality of engagement performance;

(Ref: Para. [A39-A40](#))
 - (b) supervision responsibilities; and

(Ref: Para. [A41](#))
 - (c) review responsibilities.

(Ref: Para. [A42](#))

39. 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.

Consultation

40. The firm shall establish 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, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
 - (d) conclusions resulting from consultations are documented and implemented.
- (Ref: Para. [A43-A48](#))

Engagement Quality Control Review

41. The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:
- (a) require an engagement quality control review for all audits of financial statements of FMC reporting entities considered to have a higher level of public accountability;
 - (b) set out criteria against which all other audits and reviews of historical financial information, and other engagements shall be evaluated to determine whether an engagement quality control review should be performed; and
- (Ref: Para. [A49](#))
- (c) require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph [41\(b\)](#).
42. The firm shall establish policies and procedures setting out the nature, timing and extent of any engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review.
- (Ref: Para. [A50-A51](#))
43. The firm shall establish policies and procedures to require the engagement quality control review to include:
- (a) discussion of significant matters with the engagement partner;
 - (b) review of the financial statements or other subject matter information and the proposed report;
 - (c) review of selected engagement documentation relating to significant judgements the engagement team made and the conclusions it reached; and
 - (d) evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.
- (Ref: Para. [A52](#))
44. For audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:
- (a) the engagement team's evaluation of the firm's independence in relation to the specific engagement;
 - (b) whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (c) whether documentation selected for review reflects the work performed in relation to the significant judgements and supports the conclusions reached.
- (Ref: Para. [A53-A54](#))

Criteria for the Eligibility of Engagement Quality Control Reviewers

45. The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:
- (a) the technical qualifications required to perform the role, including the necessary experience and authority; and

(Ref: Para. [A55](#))
 - (b) the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

(Ref: Para. [A56](#))
46. The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer.

(Ref: Para. [A57-A59](#))
47. The firm's policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.

Documentation Requirements for an Engagement Quality Control Review

48. The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:
- (a) the procedures required by the firm's policies on engagement quality control review have been performed;
 - (b) the engagement quality control review has been completed on or before the date of the report; and
 - (c) the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions it reached were not appropriate.

Differences of Opinion

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

(Ref: Para. [A60-A61](#))

50. Such policies and procedures shall require that:
- (a) conclusions reached be documented and implemented; and
 - (b) where an engagement report is required the report not be dated until the matter is resolved.

Engagement Documentation

Completion of the Assembly of Final Engagement Files

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

(Ref: Para. [A62-A63](#))

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

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

(Ref: Para. [A64-A67](#))

Retention of Engagement Documentation

53. The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

(Ref: Para. [A68-A71](#))

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures

54. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:
- (a) include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement across the range of services provided for each engagement partner;
 - (b) require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
 - (c) require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagement.

(Ref: Para. [A72-A76](#))

Evaluating, Communicating and Remedying Identified Deficiencies

55. The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:
- (a) instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with engagement standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
 - (b) systemic, repetitive or other significant deficiencies that require prompt corrective action.
56. The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.
- (Ref: Para. [A77](#))
57. 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 quality control policies and procedures; and
 - (d) disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.
58. The firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant engagement standards and legal and regulatory requirements and to consider whether to obtain legal advice.

59. The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. This communication 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 actions taken to resolve or amend those deficiencies.
60. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this Standard, and these firms place reliance on such a monitoring system, the firm's policies and procedures shall require that:
- (a) at least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and
 - (b) the network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken,
- in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.

Complaints and Allegations

61. The firm shall establish 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 engagement standards and applicable legal and regulatory requirements; and
 - (b) allegations of non-compliance with the firm's system of quality control.

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

(Ref: Para. [A78](#))

62. If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures or non-compliance with the firm's system of quality control by an individual or individuals are identified, the firm shall take appropriate actions as set out in paragraph [57](#).

(Ref: Para. [A79-A80](#))

63. Where a complaint is received from the Institute under the Institute's complaints process the firm shall give the Institute its full assistance with the investigation and resolution of the complaint.

Documentation of the System of Quality Control

64. The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

(Ref: Para. [A81-A83](#))

65. The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

66. The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

Quality Control Procedures for Individual Engagements (Other Than Audits of Historical Financial Information)

System of Quality Control and Role of Engagement Teams

67. Within the context of the firm's system of quality control, engagement teams shall implement quality control procedures that are applicable to the engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.

(Ref: Para. [A84](#))

68. All quality control policies and procedures implemented in the performance of individual engagements shall be adequately documented in accordance with paragraph [22](#), and comply with the engagement documentation requirements in paragraphs [51-53](#).

(Ref: Para. [A62-A71](#))

69. The engagement partner shall ensure that quality control policies and procedures relevant to the individual engagement are communicated to the engagement team, in accordance with the requirement in paragraph [22](#).

(Ref: Para. [A2](#))

Elements of a System of Quality Control for Individual Engagements

70. Quality control policies and procedures for individual engagements shall address each of the following elements:
- (a) Leadership responsibilities for quality on engagements.
 - (b) Relevant ethical and professional requirements.
 - (c) Acceptance and continuance of client relationships and specific engagements.
 - (d) Assignment of engagement teams.
 - (e) Engagement performance.
 - (f) Monitoring.

Leadership Responsibilities for Quality on Engagements

71. The engagement partner shall take responsibility for the overall quality on each engagement to which that partner is assigned.

(Ref: Para. [A85](#))

Relevant Ethical and Professional Requirements

72. The engagement partner shall consider whether members of the engagement team have complied with relevant ethical requirements and apply the requirements in paragraph [26](#) as they relate to individual engagements.

(Ref: Para. [A7-A14](#))

73. Throughout the engagement, the engagement partner shall remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.

(Ref: Para. [A12-A13](#))

74. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

(Ref: Para. [A13](#))

Independence in Engagements for which Independence is Required

75. 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:(Ref: Para. [A13](#))
- (a) obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - (b) 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
 - (c) take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.
- (Ref: Para. [A86-A87](#))

Acceptance and Continuance of Client Relationships and Specific Engagements

76. The engagement partner shall be satisfied that appropriate 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.
- (Ref: Para. [A88-A89](#))
77. 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.
- (Ref: Para. [A89](#))

Assignment of Engagement Teams

78. 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 engagement standards and applicable legal and regulatory requirements; and
 - (b) enable an engagement report that is appropriate in the circumstances to be issued.
- (Ref: Para. [A90-A93](#))

Engagement Performance

Direction, Supervision and Performance

79. The engagement partner shall take responsibility for:
- (a) the direction, supervision and performance of the engagement in compliance with engagement standards and applicable legal and regulatory requirements; and
- (Ref: Para. [A41](#), [A94-A95](#), [A98](#))
- (b) any engagement report being appropriate in the circumstances.

Reviews

80. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures and apply the requirement in paragraph [39](#).
- (Ref: Para. [A42](#), [A98](#))
81. On or before the date of the engagement report, the engagement partner shall, through a review of the engagement documentation and discussion with the engagement team, be satisfied that sufficient appropriate evidence has been obtained to support the conclusions reached and for the engagement report to be issued.
- (Ref: Para. [A96-A98](#))

Consultation

82. The engagement partner shall:
- (a) take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
 - (b) 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;
 - (c) be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
 - (d) determine that conclusions resulting from consultations have been implemented.
- (Ref: Para. [A43-A48](#))

Engagement Quality Control Review

83. Where an engagement quality control review is performed for an engagement, the engagement partner shall:
- (a) determine that an engagement quality control reviewer has been appointed;
 - (b) discuss significant matters arising during the engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - (c) not date the engagement report until the completion of the engagement quality control review.

(Ref: Para. [A50-A51](#), [A99-A100](#))

84. The engagement quality control reviewer shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the engagement report. This evaluation shall follow the requirements in paragraph [43](#).

(Ref: Para. [A101-A104](#))

Differences of Opinion

85. If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

Monitoring

86. Members, including partners and engagement partners, shall comply with any requirements of the Institute in relation to all engagements undertaken, or engagements with which they otherwise have an involvement, including any involvement for purposes of complying with this Standard.
87. An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the engagement.

(Ref: Para. [A105-A107](#))

Documentation

88. The engagement team shall include in the documentation:
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
 - (b) Conclusions on compliance with 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.

(Ref: Para. [A108](#))

89. The engagement quality control reviewer shall document, for the engagement reviewed, that:
- (a) the procedures required by the firm's policies on engagement quality control review have been performed;
 - (b) the engagement quality control review has been completed on or before the date of any engagement report; and
 - (c) the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions they reached were not appropriate.

Application and Other Explanatory Material

Applying, and Complying with, Relevant Requirements

Considerations Specific to Smaller Firms

(Ref: Para. [17](#))

- A1. 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 (see paragraph [37](#)), for review responsibilities (see paragraph [39](#)), and for the annual communication of the results of monitoring to engagement partners within the firm (see paragraph [59](#)) 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. 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 control review is required (for compliance with this Standard those reviews are required only for financial statement audits of entities that are FMC reporting entities considered to have a higher level of public accountability), it may be necessary or appropriate to use the services of a suitably qualified external person.

Establishment of a System of Quality Control

(Ref: Para. [22](#), [69](#))

- A2. In general, communication of quality control policies and procedures to firm personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. 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 control matters recognises the importance of obtaining feedback on the firm's system of quality control.

Considerations Specific to Smaller Firms

- A3. Documentation and communication of policies and procedures for smaller firms may be less formal and extensive than for larger firms.

Firm Level Systems of Quality Control

Leadership Responsibilities for Quality within the Firm

Promoting an Internal Culture of Quality

(Ref: Para. [24](#))

- A4. The firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasise the firm's quality control policies and procedures, and the requirement to:
- (a) Perform work that complies with engagement standards and applicable legal and regulatory requirements;
and
 - (b) Issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards high-quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm's internal documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

- A5. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognise that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Promoting such an internal culture includes:
- (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality;
 - (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
 - (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures.

Assigning Operational Responsibility for the Firm's System of Quality Control

(Ref: Para. [25](#))

- A6. Sufficient and appropriate experience and ability enables the person or persons responsible for the firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

Relevant Ethical and Professional Requirements

Compliance with Relevant Ethical and Professional Requirements

(Ref: Para. [26](#), [72](#))

- A7. Quality is maintained through, among other things, compliance with the *Code of Ethics* and Professional and Engagement Standards. Compliance with the *Code of Ethics* is mandatory for all members, and members must be able to demonstrate at all times that their actions, behaviour and conduct comply with the *Code of Ethics*.⁵
- A8. The *Code of Ethics* establishes the professional duty for members to report unethical behaviour of another member to the most senior executive of the Institute, on a confidential basis, where the member has reasonable grounds to suspect that another member has engaged in unethical behaviour.⁶ Further guidance on this duty is contained in the *Code of Ethics*. Members who encounter situations which possibly indicate involvement of other members in unethical behaviour, particularly likely breaches of the *Code of Ethics*, should consider whether they have a professional duty to report such behaviour to the most senior executive of the Institute. If necessary, members should consider obtaining legal advice to assist them to decide whether this professional duty exists in the particular circumstances.

Code of Ethics: Fundamental Principles

- A9. Many of the components of quality control are embodied in the Fundamental Principles contained in the *Code of Ethics* and throughout the Engagement Standards. Commitment by members to the Fundamental Principles allows the Institute and its members to be distinguished from other persons who hold themselves out as providing accounting and other professional services.

A10. The *Code of Ethics* establishes the Fundamental Principles of professional ethics, which include:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional Competence and Due Care;
- (d) Confidentiality; and
- (e) Professional Behaviour.

The *Code of Ethics* explains members' obligation to act in the public interest and requires members to comply with the Fundamental Principles. It states that this involves identification of compliance threats, and application of appropriate safeguards to mitigate or eliminate those threats.

A11. The *Code of Ethics* includes a conceptual approach to independence for assurance engagements that takes into account threats to independence and application of appropriate safeguards responsive to those threats. It contains comprehensive guidance on the application of the conceptual approach to specific situations in the context of maintaining independence for assurance engagements.

A12. The Fundamental Principles are reinforced in particular by:

- the leadership of the firm;
- education and training;
- monitoring; and
- a process for dealing with non-compliance.

Independence in engagements for which independence is required, including independence in assurance engagements, is addressed separately in paragraphs [27-31](#), [75](#) and [A16-A22](#). These paragraphs need to be read in conjunction with the *Code of Ethics*.

Definition of "Firm," "Network" and "Network Firm"

(Ref: Para. [26-31](#), [72-75](#))

A13. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this Standard. For example, the *Code of Ethics* defines the "firm" as:

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

The *Code of Ethics* also provides guidance in relation to the terms "network" and "network firm".⁷

In complying with the requirements in paragraphs [26-31](#) and paragraphs [72-75](#), the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Considerations Specific to the Public Sector

(Ref: Para. [29, 31](#))

- A14. In the case of a statutory officer (such as the Auditor-General) who is bound by this Standard in their professional capacity as a member, if the officer does not have the ability to withdraw from, or to decline to accept, an engagement to eliminate a threat to independence of a professional nature, it will be sufficient compliance with this Standard for the statutory officer to:
- (a) introduce safeguards to reduce the threat to independence to the extent that is reasonably possible in the circumstances; and
 - (b) disclose the threat to independence to those responsible for governance of the entity and publicly disclose the matter where a report is required.

Professional Requirements: Practice Review

(Ref: Para. [26](#))

- A15. The Institute's Rules establish Practice Review as a function the Institute performs to regulate its members' practices to ensure that professional and engagement standards are being maintained. As part of that function, the Institute may, among other things:
- require a member to produce documents or other material in the member's possession or power which may be required for a practice review; and/or
 - examine any document or other material or undertake any other form of enquiry which may be required for a practice review.

These powers extend to undertaking enquiries, and requiring production of or examination of documents or other material, for the purpose of ascertaining a member's compliance with the requirements of this Standard. Members have a professional duty to disclose information required by the Practice Review Board. In accordance with the *Code of Ethics* this duty extends to information acquired in the course of members' professional work that is otherwise subject to the professional duty of confidentiality.⁸

Firms Performing Engagements for which Independence is Required

Written Confirmation

(Ref: Para. [30](#))

- A16. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.

Familiarity Threat

(Ref: Para. [31\(b\)](#))

A17. The *Code of Ethics* discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such threats.

A18. Determining appropriate criteria to address familiarity threat may include matters such as:

- The nature of the engagement, including the extent to which it involves a matter of public interest; and
- The length of service of the senior personnel on the engagement.

Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.

A19. The *Code of Ethics* recognises that the familiarity threat is particularly relevant in the context of financial statement audits of FMC reporting entities considered to have a higher level of public accountability. For these audits, the *Code of Ethics* requires the rotation of the lead engagement partner after a pre-defined period, normally no more than seven years, and provides related standards and guidance. Shorter rotation requirements may be established for particular audit engagements or classes of audit engagement, for example for audits of entities whose securities are quoted or listed on a recognised stock exchange.

Considerations Specific to the Public Sector

A20. Statutory measures may provide safeguards for the independence of a statutory officer (for example, the Auditor-General). However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in establishing the policies and procedures required by paragraphs [26-31](#), the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.

A21. FMC reporting entities considered to have a higher level of public accountability, as referred to in paragraphs [31](#) and [A19](#), are not common in the public sector. However, there may be other public entities that are significant due to size, complexity, commercial risk, parliamentary or media interest or public interest aspects, and which consequently have a wide range of stakeholders. There are no fixed objective criteria on which this determination of significance should be based. Such a determination should encompass an evaluation of all factors relevant to the public entity. Therefore, there may be instances when a firm determines, based on its quality control policies and procedures, that a public entity is significant for the purposes of expanded quality control procedures.

A22. In the public sector, legislation may establish the appointments and terms of office of the auditor with engagement partner responsibility. As a result, it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for FMC reporting entities considered to have a higher level of public accountability. Nonetheless, for public entities considered significant, as noted in paragraph [A21](#), it may be in the public interest for public sector auditors to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility specified in the *Code of Ethics* or other regulatory requirements.

Acceptance and Continuance of Client Relationships and Specific Engagements

(Ref: Para. [32](#))

A23. 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.

Competence, Capabilities, and Resources

(Ref: Para. [32\(a\)](#))

A24. Consideration of whether the firm has the competence, capabilities and resources to undertake a new engagement from a new or an existing client involves reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, 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 and competence;
- Experts are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm is able to complete the engagement within the reporting deadline.

Integrity of Client

(Ref: Para. [32\(c\)](#))

A25. With regard to the integrity of a client, matters to consider include, for example:

- The identity and business reputation of the client's principal owners, key management, and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.

- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.
- The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

A26. Sources of information on such matters obtained by the firm may include the following:

- Communications with existing or previous providers of professional accountancy services to the client in accordance with the *Code of Ethics*⁹, and discussions with other third parties.
- Enquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

Continuance of Client Relationship

(Ref: Para. [33\(a\)](#))

A27. Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary expertise.

Withdrawal

(Ref: Para. [34](#))

A28. 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.

Considerations Specific to the Public Sector

(Ref: Para. [32-34](#))

A29. In the case of a statutory officer (such as the Auditor-General) who is bound by this Standard in their professional capacity as a member but does not have the ability to withdraw from or to decline to accept an engagement, if the officer, having taken account of the requirements in paragraphs [32](#) to [34](#) and guidance in paragraphs [A24](#) to [A28](#), would normally be required to withdraw from or decline to accept an engagement for reasons described in those paragraphs, it will be sufficient compliance with this Standard for the statutory officer to take appropriate action to mitigate any risks in the engagement - including, if necessary, public reporting of any issues. Nonetheless, establishing policies and procedures as described may provide valuable information to officers in performing risk assessments and in carrying out reporting responsibilities.

Human Resources

(Ref: Para. [35](#))

A30. 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.

A31. 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.

- A32. 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.
- A33. The firm may use a suitably qualified external person, for example, when internal technical and training resources are unavailable.
- A34. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a firm may take in developing and maintaining competence and commitment to ethical principles include:
- Making personnel aware of the firm's expectations regarding performance and ethical principles;
 - Providing personnel with evaluation of, and counseling on, performance, progress and career development; and
 - Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.

Considerations Specific to Smaller Firms

- A35. The size and circumstances of the firm will influence the structure of the firm's performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their personnel.

Assignment of Engagement Teams

Engagement Partners

(Ref: Para. [36](#))

- A36. Policies and procedures may include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

Engagement Teams

(Ref: Para. [37](#))

A37. 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 and engagement standards and applicable legal and regulatory requirements;
- Technical knowledge and expertise, including knowledge of relevant information technology;
- Knowledge of relevant industries in which the clients operate;
- Ability to apply professional judgement; and
- Understanding of the firm's quality control policies and procedures.

Considerations Specific to the Public Sector

A38. Additional capabilities may be required in engagements performed in public sector contexts. Such additional capabilities may include an understanding of the applicable reporting arrangements, including reporting to a representative body, for example, Parliament or a local authority. The wider scope of a public sector engagement may include, for example, some aspects of performance auditing or a comprehensive assessment of the arrangements for ensuring legality and preventing and detecting fraud and corruption.

Engagement Performance

Consistency in the Quality of Engagement Performance

(Ref: Para. [38\(a\)](#))

A39. 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 engagement standards.
- Processes of engagement supervision, staff training and coaching.
- Methods of reviewing the work performed, the significant judgements made and the form of report being issued.
- Appropriate documentation of the work performed and of the timing and extent of the review.
- Processes to keep all policies and procedures current.

A40. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

Supervision

(Ref: Para. [38\(b\)](#), [79](#))

A41. Engagement supervision includes the following:

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

Review

(Ref: Para. [38\(c\)](#), [80](#))

A42. A review consists of consideration of whether:

- The work has been performed in accordance with engagement standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Consultation

(Ref: Para. [40](#), [82](#))

A43. The acceptance of an engagement implies that the engagement partner and the engagement team have the necessary competence to carry out the engagement. A firm should not undertake or continue an engagement that the firm is not competent to carry out. Where the engagement partner or other members of the engagement team are unable to carry out a particular aspect of an engagement, the firm should obtain advice and assistance from those who have the appropriate expertise, competence, judgement and authority to enable the firm to complete the engagement in accordance with engagement standards and regulatory and legal requirements.

- A44. Consultation includes discussion at the appropriate professional level with individuals within or outside the firm who have specialised expertise.
- A45. 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.
- A46. 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.
- A47. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:
- The issue on which consultation was sought; and
 - The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Considerations Specific to Smaller Firms

- A48. 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 control services.

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

Engagement Quality Control Review

Criteria for an Engagement Quality Control Review

(Ref: Para. [41\(b\)](#))

- A49. Criteria for determining which engagements other than audits of financial statements of FMC reporting entities considered to have a higher level of public accountability are to be subject to an engagement quality control review include, for example:
- The nature of the engagement, including the extent to which it involves a matter of public interest.
 - The identification of unusual circumstances or risks in an engagement or class of engagements.
 - Whether laws or regulations require an engagement quality control review.

Nature, Timing and Extent of the Engagement Quality Control Review

(Ref: Para. [42-43](#), [83](#))

- A50. The engagement report is not dated until the completion of the engagement quality control review. However, documentation of the engagement quality control review may be completed after the date of the report.
- A51. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the report.
- A52. The extent of the engagement quality review may depend, among other things, on the complexity of the engagement, whether the entity is a FMC reporting entity considered to have a higher level of public accountability, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality review does not reduce the responsibilities of the engagement partner.

Engagement Quality Control Review of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability

(Ref: Para. [44](#))

A53. Other matters relevant to evaluating the significant judgements made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a FMC reporting entity considered to have a higher level of public accountability include:

- Significant risks identified during the engagement and the responses to those risks.
- Judgements made, particularly with respect to materiality and significant risks.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

These other matters, depending on the circumstances, may also be applicable for engagement quality control reviews for audits of the financial statements of other entities as well as reviews of financial statements and other assurance engagements.

Considerations Specific to the Public Sector

A54. Although not referred to as FMC reporting entities considered to have a higher level of public accountability, as described in paragraph [A21](#) – [A22](#), certain public entities may be of sufficient significance to warrant performance of an engagement quality control review. There are no fixed objective criteria on which this determination of significance should be based. However, such a determination should encompass an evaluation of all factors relevant to the public entity. Such factors include size, complexity, commercial risk, parliamentary or media interest and the number and range of stakeholders affected.

Criteria for the Eligibility of Engagement Quality Control Reviewers

Sufficient and Appropriate Technical Expertise, Experience and Authority

(Ref: Para. [45\(a\)](#))

A55. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of a FMC reporting entity considered to have a higher level of public accountability is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of FMC reporting entities considered to have a higher level of public accountability.

Consultation with the Engagement Quality Control Reviewer

(Ref: Para. [45\(b\)](#))

- A56. The engagement partner may consult the engagement quality control reviewer during the engagement, for example, to establish that a judgement made by the engagement partner will be acceptable to the engagement quality control reviewer. Such consultation avoids identification of differences of opinion at a late stage of the engagement and need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant, the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

Objectivity of the Engagement Quality Control Reviewer

(Ref: Para. [46](#))

- A57. The firm is required to establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. Accordingly, such policies and procedures provide that the engagement quality control reviewer:
- Where practicable, is not selected by the engagement partner;
 - Does not otherwise participate in the engagement during the period of review;
 - Does not make decisions for the engagement team; and
 - Is not subject to other considerations that would threaten the reviewer's objectivity.

Considerations Specific to Smaller Firms

- A58. It may not be practicable, in the case of firms with few partners, for the engagement partner not to be involved in selecting the engagement quality control reviewer. Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the requirements in paragraphs [45-47](#) and guidance in paragraphs [A56-A57](#) apply.

Considerations Specific to the Public Sector

- A59. In the public sector, a statutory officer (for example, the Auditor-General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. Paragraph [46](#) requires the engagement quality control reviewer to be objective (for example, not to be selected by the engagement partner). In the case of a statutory officer (such as the Auditor-General) who is bound by this Standard in their professional capacity as a member, it will be sufficient compliance with this Standard for the engagement quality control reviewer to be selected having regard to the need for independence and objectivity and, for audits of public entities that are FMC reporting entities considered to have a higher level of public accountability for the appointment of an engagement quality control reviewer to be in accordance with paragraphs [45-47](#) and guidance in paragraphs [A56-A58](#).

Differences of Opinion

(Ref: Para. [49](#))

- A60. 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.
- A61. Procedures to resolve such differences may include consulting with another member or firm, or a professional or regulatory body.

Engagement Documentation

Completion of the Assembly of Final Engagement Files

(Ref: Para. [51](#), [68](#))

- A62. 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 [51](#) requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report¹⁰.
- A63. Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

(Ref: Para. [52](#), [68](#))

- A64. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

A65. 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.

A66. 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.

A67. 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

(Ref: Para. [53](#), [68](#))

- A68. The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.
- A69. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- A70. Procedures that the firm adopts for retention of engagement documentation include those that enable the requirements of paragraph [53](#) 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 control or other purposes.

Ownership of Engagement Documentation

- A71. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Monitoring

Monitoring the Firm's Quality Control Policies and Procedures

(Ref: Para. [54](#))

- A72. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:
- Adherence to professional and engagement standards and applicable legal and regulatory requirements;
 - Whether the quality control system has been appropriately designed and effectively implemented; and
 - Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.

A73. Ongoing consideration and evaluation of the system of quality control include matters such as the following:

- Analysis of:
 - New developments in professional and ethical standards and applicable legal and regulatory requirements, and how they are reflected in the firm's policies and procedures where appropriate;
 - Written confirmation of compliance with policies and procedures on independence;
 - Continuing professional development, including training; and
 - Decisions related to acceptance and continuance of client relationships and specific engagements.

- Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training.

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- Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.

- Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.

A74. 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.

A75. 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.

Considerations Specific to Smaller Firms

A76. In the case of small firms, monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the firm's quality control policies and procedures, or who may be involved in performing the engagement quality control review. A firm with a limited number of persons may choose to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, the firm may establish arrangements to share resources with other appropriate organisations to facilitate monitoring activities.

Communicating Deficiencies

(Ref: Para. [56](#))

A77. The reporting of identified deficiencies to individuals other than the relevant engagement partners need not include an identification of the specific engagements concerned, although there may be cases where such identification may be necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.

Complaints and Allegations

Source of Complaints and Allegations

(Ref: Para. [61](#))

A78. 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 received from the Institute under the Institute's complaints process.

Investigation Policies and Procedures

(Ref: Para. [62](#))

A79. Policies and procedures established for the investigation of complaints and allegations may include, for example, that the partner supervising the investigation:

- Has sufficient and appropriate experience;
- Has authority within the firm; and
- Is otherwise not involved in the engagement.

The partner supervising the investigation may involve legal counsel as necessary.

Considerations Specific to Smaller Firms

A80. It may not be practicable, in the case of firms with few partners, for the partner supervising the investigation not to be involved in the engagement. These small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation into complaints and allegations.

Documentation of the System of Quality Control

(Ref: Para. [64](#))

A81. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgement and depends on a number of factors including the following:

- The size of the firm and the number of offices.
- The nature and complexity of the firm's practice and organisation.

For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller firms may use more informal methods such as manual notes, checklists and forms.

A82. Appropriate documentation relating to monitoring includes, for example:

- Monitoring procedures, including the procedure for selecting completed engagements to be inspected.
- A record of the evaluation of:
 - Adherence to professional and engagement standards and applicable legal and regulatory requirements;
 - Whether the system of quality control has been appropriately designed and effectively implemented; and
 - Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.
- Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary.

Considerations Specific to Smaller Firms

A83. Smaller firms may use more informal methods in the documentation of their systems of quality control such as manual notes. The policies are often simply embedded in the firm's engagements templates in the form of standard communications, questionnaires, checklists, memoranda, and forms.

Quality Control Procedures for Individual Engagements (Other Than Audits of Historical Financial Information)

System of Quality Control and Role of Engagement Teams

Reliance on the Firm's System of Quality Control

(Ref: Para. [67](#))

A84. Unless information provided by the firm or other parties suggests otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:

- Competence of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to applicable legal and regulatory requirements through the monitoring process.

Leadership Responsibilities for Quality on Engagements

(Ref: Para. [71](#))

A85. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasise:

- (a) The importance to engagement quality of:
 - (i) Performing work that complies with engagement standards and applicable legal and regulatory requirements;
 - (ii) Complying with the firm's quality control policies and procedures as applicable;
 - (iii) Issuing engagement reports that are appropriate in the circumstances; and
 - (iv) The engagement team's ability to raise concerns without fear of reprisals; and
- (b) The fact that quality is essential in performing engagements.

Relevant Ethical and Professional Requirements

Threats to Independence

(Ref: Para. [75\(c\)](#))

A86. The engagement partner may identify a threat to independence regarding the engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph [75\(c\)](#), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Considerations Specific to the Public Sector

A87. Statutory measures may provide safeguards for the independence of a statutory officer (for example, the Auditor-General). However, the officer or firms carrying out public sector engagements on behalf of the statutory officer may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 75. This may include, where the officer's mandate does not permit withdrawal from the engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the officer to withdraw.

Acceptance and Continuance of Client Relationships and Specific Engagements

(Ref: Para. 76)

A88. Paragraph 33(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 ethical requirements; and
- significant matters that have arisen during the current or previous engagement, and their implications for continuing the relationship.

Considerations Specific to the Public Sector

(Ref: Para. 76-77)

A89. In the public sector, an officer may be appointed in accordance with statutory procedures (for example, the Auditor-General). Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and engagements as set out in paragraphs 76-77, and A88 may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to public sector officers in performing risk assessments and in carrying out reporting responsibilities.

Assignment of Engagement Teams

(Ref: Para. 78)

A90. An engagement team includes a person using expertise in a specialised area of accounting, whether engaged or employed by the firm, if any, who performs procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. Consultations are addressed in paragraph 82 and paragraphs A43-A48.

A91. The appropriate capabilities and competence expected of the engagement team as a whole are set out in paragraphs [A37-A38](#).

Delegation

A92. 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.

A93. 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.

Engagement Performance

Direction, Supervision and Performance

(Ref: Para. [79\(a\)](#))

A94. 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 ethical requirements, and to plan and perform the engagement with professional scepticism.
- Responsibilities of respective partners where more than one 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.

A95. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

The Engagement Partner's Review of Work Performed

(Ref: Para. [81](#))

A96. 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 on or before the date of the engagement report:

- 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 partner documents the extent and timing of the reviews.

A97. An engagement partner taking over an engagement during the engagement may apply the review procedures as described in paragraph [A96](#) to review the work performed to the date of a change in order to assume the responsibilities of an engagement partner.

Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialised Area of Accounting is Used

(Ref: Para. [79-81](#))

A98. Where a member of the engagement team with expertise in a specialised area of accounting 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 evidence.

Engagement Quality Control Review

(Ref: Para. [83-84](#))

A99. When an engagement meets the criteria for an engagement quality control review, such a review assists the member in determining whether sufficient appropriate evidence has been obtained.

- A100. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements of paragraphs [83-84](#) and, where applicable, compliance with paragraph [85](#). Documentation of the engagement quality control review may be completed after the date of the engagement report as part of the assembly of the final engagement file.
- A101. Remaining alert for changes in circumstances allows the engagement partner to identify situations in which an engagement quality control review is necessary, even though at the start of the engagement, such a review was not required.
- A102. The extent of the engagement quality control review may depend, among other things, on the complexity of the engagement, whether the entity is a FMC reporting entity considered to have a higher level of public accountability, and the risk that the engagement report might not be appropriate in the circumstances. The performance of the engagement quality control review does not reduce the responsibilities of the engagement partner for the engagement and its performance.

Considerations Specific to Smaller Entities

(Ref: Para. [84](#))

- A103. An engagement quality control review is required for engagements that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's engagements may meet the criteria that would subject them to such a review.

Considerations Specific to the Public Sector

(Ref: Para. [84](#))

- A104. In the public sector, a statutorily appointed officer (for example, the Auditor-General, or other suitably qualified person appointed on behalf of the Auditor-General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector engagements. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

Monitoring

(Ref: Para. [87](#))

- A105. Paragraph [54](#) requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control is relevant, adequate and operating effectively.

- A106. 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.
- A107. A deficiency in the firm's system of quality control does not necessarily indicate that a particular engagement was not performed in accordance with engagement standards and applicable legal and regulatory requirements, or that the engagement report was not appropriate.

Documentation

Documentation of Consultations

(Ref: Para. [88\(d\)](#))

- A108. 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.

Appendix – Comparison of PS-1 with the International Standard

[PS-1](#) incorporates the requirements and guidance contained in International Standard on Quality Control 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" (ISQC 1). The requirements and guidance of ISQC 1 incorporated into PS-1 carry the same intention (as to their meaning and effect) and authority as they do in ISQC 1.

Some wording of ISQC 1 as incorporated into PS-1 has been changed. These are to:

- Accommodate the regulatory environment in New Zealand (for example, references to "listed entities" in ISQC 1 are replaced by references to "FMC reporting entities considered to have a higher level of public accountability" (as defined); and
- To achieve consistency with the Institute's other pronouncements (for example, the *Code of Ethics*).

Footnotes

- 1 ISA (NZ) 220, "Quality Control for an Audit of Financial Statements."
- 2 "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.
- 3 Note that prior to June 2009, the Council of the Institute was responsible for the approval of Engagement Standards.
- 4 Paragraphs 290.150 – 290.155 *Code of Ethics*.
- 5 Paragraph [NZ1.2](#) of the *Code of Ethics*.
- 6 Paragraph NZ140.09 of the *Code of Ethics*.
- 7 Paragraphs 290.13–290.24 of the *Code of Ethics*.
- 8 Paragraph [140.7\(c\)](#) of the *Code of Ethics*.
- 9 Paragraphs [210.9–NZ210.14](#) of the *Code of Ethics*.
- 10 ISA (NZ) 230, "Audit Documentation", paragraph [A21](#).