

Compiled Auditing Standard

**ASQC 1**  
(June 2020)

**Auditing Standard ASQC 1**  
*Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

This compilation was prepared on 8 July 2020 taking into account amendments made by ASA 2011-1, ASA 2013-2, ASA 2017-2 and ASA 2020-2.

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Prepared by the **Auditing and Assurance Standards Board**



**Australian Government**

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**Auditing and Assurance Standards Board**

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## Auditing Standard ASQC 1

### *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*

## COMPILATION DETAILS

### **Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements (as Amended)***

This compilation takes into account amendments made up to and including 30 June 2020 and was prepared on 8 July 2020 by the Auditing and Assurance Standards Board (AUASB).

This compilation is not a separate Auditing Standard made by the AUASB. Instead, it is a representation of ASQC 1 (October 2009) as amended by other Auditing Standards which are listed in the Table below.

#### **Table of Standards**

<b>Standard</b>	<b>Date made</b>	<b>Operative Date</b>
ASQC 1 [A]	27 October 2009	financial reporting periods commencing on or after 1 January 2010
ASA 2011-1 [B]	27 June 2011	financial reporting periods commencing on or after 1 July 2011
ASA 2013-2 [C]	11 November 2013	financial reporting periods commencing on or after 1 January 2014
ASA 2017-2 [D]	30 May 2017	financial reporting periods commencing on or after 1 January 2018
ASA 2020-2 [E]	30 June 2020	financial reporting periods ending on or after 15 July 2020

[A] Federal Register of Legislation – registration number F2009L04063, 12 November 2009

[B] Federal Register of Legislation – registration number F2011L01379, 30 June 2011

[C] Federal Register of Legislation – registration number F2013L01939, 14 November 2013

[D] Federal Register of Legislation – registration number F2017L01179, 13 September 2016

[E] Federal Register of Legislation – registration number F2020L00885, 7 July 2020

#### **Table of Amendments**

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
Aus A63.1	Amended	ASA 2011-1 [11]
Aus 12.12 Footnote *	Amended	ASA 2011-1 [12]
A53 Footnote *	Amended	ASA 2011-1 [13]
Title	Amended	ASA 2013-2 [8]
Conformity Statement	Amended	ASA 2013-2 [9]
Aus 0.1	Amended	ASA 2013-2 [10]
Aus 1.1	Amended	ASA 2013-2 [11]

**Auditing Standard ASQC 1*****Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
Aus 4.1	Amended	ASA 2013-2 [12]
9	Amended	ASA 2013-2 [13]
Aus 12.2	Amended	ASA 2013-2 [14]
Aus 12.5	Amended	ASA 2013-2 [15]
12(f)	Amended	ASA 2013-2 [16]
12(f) Footnote 3	Addition	ASA 2013-2 [17]
12(f) Footnote #	Addition	ASA 2013-2 [17]
Footnote references	Re-numbered	ASA 2013-2 [18]
Aus 12.6	Addition	ASA 2013-2 [19]
Aus 12.7-Aus 12.13	Re-numbered	ASA 2013-2 [20]
Aus 12.10	Amended	ASA 2013-2 [21]
Aus 12.11	Amended	ASA 2013-2 [22]
Aus 12.13	Amended	ASA 2013-2 [23]
14	Amended	ASA 2013-2 [24]
35(b)	Amended	ASA 2013-2 [25]
Aus A7.1	Amended	ASA 2013-2 [26]
A45	Amended	ASA 2013-2 [27]
Aus 12.13 Footnote *	Amended	ASA 2017-2 [7]
A53 Footnote *	Amended	ASA 2017-2 [8]
A56	Amended	ASA 2017-2 [9]
21	Amended	ASA 2020-2 [8]
Aus 21.1	Addition	ASA 2020-2 [9]
22	Amended	ASA 2020-2 [10]
25	Amended	ASA 2020-2 [11]
A11	Amended	ASA 2020-2 [12]
A12	Amended	ASA 2020-2 [13]
Aus A12.1	Amended	ASA 2020-2 [14]
Aus A13.1	Amended	ASA 2020-2 [15]
Aus A14.1	Amended	ASA 2020-2 [16]
A56 Footnote 5	Amended	ASA 2020-2 [17]

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**AUTHORITY STATEMENT**

Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (as amended to 30 June 2020) is set out in paragraphs Aus 0.1 to A75.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

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## **Conformity with International Standards on Quality Control**

This Auditing Standard conforms with International Standard on Quality Control ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISQC) are identified with the prefix “Aus”.

The following requirements are additional to ISQC 1:

- At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements, and applicable legal and regulatory requirements. (Ref: Para. Aus 24.1)
- The firm shall establish policies and procedures designed to provide it with reasonable assurance that:
  - Appropriate consultation takes place on difficult or contentious matters;
  - Sufficient resources are available to enable appropriate consultation to take place;
  - The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
  - Conclusions resulting from consultations are implemented; or
  - The reasons alternative courses of action from consultations were undertaken, are documented. (Ref: Para. Aus 34.1)

The following application and other explanatory material are additional to ISQC 1:

- For audits or reviews of financial reports conducted under the Corporations Act 2001 (the Act), section 307B of that Act requires an auditor or member of an audit firm to retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Australian Auditing Standards until:
  - (a) The end of seven years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or
  - (b) An earlier date determined by the Australian Securities and Investments Commission for the audit working papers. (Ref: Para. Aus A61.1)
- Relevant law or regulation, other than the *Corporations Act 2001*, may require the retention of audit working papers for specified periods. (Ref: Para. Aus A61.2)
- Unless otherwise specified by law or regulation, engagement documentation remains 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 the independence of the firm or its personnel. (Ref: Para. Aus A63.1)
- In the public sector, an auditor appointed under statute (for example, an Auditor-General) may delegate responsibility for an engagement. The monitoring process needs to include, on a cyclical basis, inspection of at least one completed engagement of each person with delegated

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responsibility for an engagement and its performance. This includes an external person engaged as the person responsible for an engagement. (Ref: Para. Aus A68.1)

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISQC 1 in respect of “relevant ethical requirements”, have been included in another Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISQC 1.



## AUDITING STANDARD ASQC 1

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*, on 27 October 2009.

This compiled version of ASQC 1 incorporates subsequent amendments contained in other Auditing Standards made by the AUASB up to and including 30 June 2020 (see Compilation Details).

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### ***Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements***

#### **Application**

- Aus 0.1 This Auditing Standard applies to a firm that performs:
- (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other historical financial information;
  - (d) an audit or review other than of historical financial information;
  - (e) other assurance engagements; and
  - (f) related services engagements.

#### **Operative Date**

- Aus 0.2 Systems of quality control in compliance with this Auditing Standard are required to be established by 1 January 2010. [Note: For operative dates of paragraphs changed or added by an Amending Standard, see Compilation Details.]

#### **Introduction**

##### **Scope of this Auditing Standard**

1. [Deleted by the AUASB. Refer Aus 1.1]
- Aus 1.1 This Auditing Standard, ASQC 1 (the Standard), deals with the firm's responsibilities for its system of quality control for audits and reviews of financial reports and other financial information, other assurance engagements and related services engagements.

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This Standard is to be read in conjunction with relevant ethical requirements. Relevant ethical requirements are defined in ASA 102.\*

2. Other pronouncements issued by Auditing and Assurance Standards Board (AUASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ASA 220,<sup>1</sup> for example, deals with quality control procedures for an audit of a financial report and other historical financial information.
3. A system of quality control consists of policies designed to achieve the objective set out in paragraph 11 of this Standard and the procedures necessary to implement and monitor compliance with those policies.

#### **Authority of this Auditing Standard**

4. [Deleted by the AUASB. Refer Aus 4.1]

Aus 4.1 This Standard applies to all firms of assurance practitioners in respect of audits and reviews of financial reports and other financial information, other assurance engagements and related services engagements. 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.

Aus 4.2 The requirements of this Standard apply to a firm, not to the individual auditor(s) within the firm.

5. This Standard contains the objective of the firm in following this Standard, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 8 of this Standard, and introductory material that provides context relevant to a proper understanding of this Standard, and definitions.
6. The objective provides the context in which the requirements of this Standard are set, and is intended to assist the firm in:
  - Understanding what needs to be accomplished; and
  - Deciding whether more needs to be done to achieve the objective.
7. The requirements of this Standard are expressed using “shall.”
8. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
  - Explain more precisely what a requirement means or is intended to cover; and
  - Include examples of policies and procedures that may be appropriate in the circumstances.

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 public sector audit organisations 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,

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\* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

<sup>1</sup> See ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

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however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this Standard.

9. This Standard includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this Standard. These are provided to assist in the consistent application and interpretation of this Standard, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The *AUASB Glossary* relating to AUASB Standards, and issued by the AUASB includes the terms defined in this Standard. It also includes descriptions of other terms found in this Standard to assist in common and consistent interpretation and translation.

#### **Effective Date**

10. [Deleted by the AUASB. Refer Aus 0.3]

#### **Objective**

11. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

#### **Definitions**

12. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:

- Aus 12.1 Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion 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.
- Aus 12.2 Assurance practitioner means an individual, firm, or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related services engagements (including engagements to perform agreed-upon procedures).
- (a) [Deleted by the AUASB. Refer Aus 12.3]
- Aus 12.3 Date of report means the date the assurance practitioner signs the report.
- (b) [Deleted by the AUASB. Refer Aus 12.4]
- Aus 12.4 Engagement documentation means the record of work performed, relevant evidence obtained, and conclusions the assurance practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).
- (c) [Deleted by the AUASB. Refer Aus 12.5]<sup>2</sup>
- Aus 12.5 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,

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<sup>2</sup> [Footnote deleted by the AUASB. Refer Aus 12.5, Aus 12.6 and Aus 12.9]

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legal or regulatory body. Engagement partner should be read as referring to a public sector equivalent where relevant.

- (d) Engagement quality control review means a process designed to provide an objective evaluation, on or before the date of the report, of the significant judgements the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial reports of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.
- (e) Engagement quality control reviewer means a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the report.

- (f) [Deleted by the AUASB. Refer Aus 12.6]<sup>3, #</sup>

Aus 12.6 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 an auditor's external expert engaged by the firm or by a network firm.

- (g) [Deleted by the AUASB. Refer Aus 12.7]

Aus 12.7 Firm means a sole practitioner, partnership or corporation or other entity of assurance practitioners. Firm should be read as referring to a public sector equivalent where relevant.

- (h) 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.

Aus 12.8 Limited assurance engagement means an assurance engagement where the assurance practitioner's objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than that for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner's conclusion. A limited assurance engagement is commonly referred to as a review.

- (i) Listed entity means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.
- (j) 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.
- (k) Network firm means a firm or entity that belongs to a network.
- (l) Network means a larger structure:
  - (i) That is aimed at cooperation, and

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<sup>3</sup> [Footnote deleted by the AUASB.]

<sup>#</sup> See ASA 610 *Using the Work of Internal Auditors*, paragraph Aus 1.2. The use of internal auditors to provide direct assistance is prohibited in an audit or review conducted in accordance with the Australian Auditing Standards.

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- (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.
- Aus 12.9 Other financial information means historical financial information and information other than historical financial information (for example, prospective financial information).
- (m) [Deleted by the AUASB. Refer Aus 12.10]
- Aus 12.10 Partner means any individual with authority to bind the firm with respect to the performance of an audit, review, other assurance engagement or related services engagement. Partner should be read as referring to a public sector equivalent where relevant.
- (n) Personnel means partners and staff.
- (o) [Deleted by the AUASB. Refer Aus 12.11]
- Aus 12.11 AUASB Standards means standards issued by the AUASB, comprising:
- (a) Australian Auditing Standards, which means the suite of auditing standards issued by the AUASB, comprising:
- Auditing Standards made under section 336 of the *Corporations Act 2001*;
  - *ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
  - *ASA 810 Engagements to Report on Summary Financial Statements*.
- (b) Standards on Review Engagements;
- (c) Standards on Assurance Engagements; and
- (d) Standards on Related Services.
- (p) Reasonable assurance means a high, but not absolute, level of assurance.
- (q) [Deleted by the AUASB. Refer Aus 12.12]
- Aus 12.12 Relevant ethical requirements means relevant ethical requirements as defined in ASA 102.
- (r) Staff means professionals, other than partners, including any experts the firm employs.
- (s) [Deleted by the AUASB. Refer Aus 12.13]
- Aus 12.13 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

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- a member (with appropriate experience) of a professional accountancy body\* whose members may perform audits and reviews of financial reports and other financial information, other assurance engagements or related services engagements, or
- a member (with appropriate experience) of an organisation that provides relevant quality control services.

## **Requirements**

### **Applying, and Complying with, Relevant Requirements**

13. Personnel within the firm responsible for establishing and maintaining the firm's system of quality control shall have an understanding of the entire text of this Standard, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
14. 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 in respect of audits and reviews of financial reports, audits and reviews of other financial information, other assurance engagements and related services engagements. (Ref: Para. A1-Aus A1.1)
15. The requirements are designed to enable the firm to achieve the objective stated in this Standard. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this Standard to meet the stated objective.

### **Elements of a System of Quality Control**

16. 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 requirements.
  - (c) Acceptance and continuance of client relationships and specific engagements.
  - (d) Human resources.
  - (e) Engagement performance.
  - (f) Monitoring.
17. The firm shall document its policies and procedures and communicate them to the firm's personnel. (Ref: Para. A2-A3)

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

18. 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)

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\* For example, Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

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19. 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 Requirements**

20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: Para. A7-A9)

#### *Independence*

21. 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 relevant ethical requirements, laws and regulations. Such policies and procedures shall enable the firm to: (Ref: Para. A10-Aus A10.1)

- (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and
- (b) Identify threats to independence, evaluate whether the identified threats are at an acceptable level, and if not address them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

- Aus 21.1 Where multiple threats to independence are identified, which individually might not be significant, the significance of those threats in aggregate and the safeguards applied or in place to eliminate some or all of the threats or reduce them to an acceptable level in aggregate, shall be evaluated.

22. Such policies and procedures shall require: (Ref: Para. A10-Aus A10.1)

- (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 threats 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.

23. 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. A10-Aus A10.1)

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- (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
- (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of this Standard, of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

24. [Deleted by the AUASB. Refer Aus 24.1]

Aus 24.1 At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements, and applicable legal and regulatory requirements. (Ref: Para. A10-A11)

25. The firm shall establish policies and procedures: (Ref: Para. A10-Aus A10.1)

- (a) Setting out criteria for determining the need to eliminate the circumstances that create a threat of long association with an entity to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time or criteria for applying safeguards to reduce the threat; and
- (b) Requiring, for audits of financial reports of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12-A17)

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

26. 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:

- (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: Para. A18, A23)
- (b) Can comply with relevant ethical requirements; and
- (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. (Ref: Para. A19-A20, A23)

27. 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. A21, A23)



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- (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.
28. 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. A22-A23)

#### **Human Resources**

29. 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 AUASB Standards, relevant ethical requirements, 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. A24-A29)

#### ***Assignment of Engagement Teams***

30. 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, and authority to perform the role; and
  - (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A30)
31. The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:
- (a) Perform engagements in accordance with AUASB Standards, relevant ethical requirements, 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. A31)

#### **Engagement Performance**

32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements, and that the firm or the

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engagement partner issue 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. A32-A33)
  - (b) Supervision responsibilities; and (Ref: Para. A34)
  - (c) Review responsibilities. (Ref: Para. A35)
33. The firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced engagement team members is reviewed by more experienced engagement team members.

#### *Consultation*

34. 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 implemented; or

Aus 34.1 The reasons alternative courses of action from consultations were undertaken, are documented. (Ref: Para. A36-A40)

#### *Engagement Quality Control Review*

35. 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 reports of listed entities;
  - (b) Set out criteria against which all other audits and reviews of historical financial information, other assurance engagements and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41)
  - (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b) of this Standard.
36. The firm shall establish policies and procedures setting out the nature, timing and extent of an 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. A42-A43)
37. 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;

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- (b) Review of the financial report 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. A44)
38. For audits of financial reports of listed entities, 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 made and supports the conclusions reached. (Ref: Para. A45-A46)

#### **Criteria for the Eligibility of Engagement Quality Control Reviewers**

39. 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. A47)
  - (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (Ref: Para. A48)
40. The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. (Ref: Para. A49-A51)
41. 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 of the Engagement Quality Control Review**

42. 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.

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*Differences of Opinion*

43. 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. A52-A53)
44. Such policies and procedures shall require that:
  - (a) Conclusions reached be documented and implemented; and
  - (b) The date of the report cannot be earlier than the date on which the matter is resolved.

*Engagement Documentation*

Completion of the Assembly of Final Engagement Files

45. 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. A54-A55)

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

46. The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A56-A59)

Retention of Engagement Documentation

47. 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. A60-Aus A63.1)

**Monitoring**

*Monitoring the Firm's Quality Control Policies and Procedures*

48. 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 for each engagement partner;
  - (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
  - (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (Ref: Para. A64-Aus A68.1)

*Evaluating, Communicating and Remedying Identified Deficiencies*

49. 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 AUASB Standards, relevant ethical requirements, and applicable legal and regulatory

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- 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.
50. 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. A69)
51. 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.
52. 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 AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements, and to consider whether to obtain legal advice.
53. 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.
54. Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this 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,

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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*

55. 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 AUASB Standards, relevant ethical requirements, 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. A70)

56. If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures or non-compliance with the firm's system of quality control by an individual or individuals are identified, the firm shall take appropriate actions as set out in paragraph 51 of this Standard. (Ref: Para. A71-A72)

#### **Documentation of the System of Quality Control**

57. 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. A73-A75)
58. 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.
59. The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

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## **Application and Other Explanatory Material**

### **Applying, and Complying with, Relevant Requirements** (Ref: Para. 14)

#### *Considerations Specific to Smaller Firms*

- 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 31), for review responsibilities (see paragraph 33), and for the annual communication of the results of monitoring to assurance practitioners within the firm (see paragraph 53) are not relevant in the case of a sole practitioner where no staff are employed.

#### *Considerations specific to Public Sector Entities*

- Aus A1.1 For assurance engagements conducted in the public sector by Auditors-General pursuant to legislation, public sector auditors should have regard to the relevant public sector mandate and address any threats in that context. Requirements relating to independence (paragraphs 21-25), acceptance and continuance of client relationships and specific engagements (paragraphs 26-28), and complaints and allegations (paragraphs 55-56) may not be consistent with the Auditors-General legislative mandate in all circumstances.

### **Elements of a System of Quality Control** (Ref: Para. 17)

- A2. In general, communication of quality control policies and procedures to firm personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging firm personnel to communicate their views or concerns on quality control matters 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 less extensive than for larger firms.

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

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

- A4. The firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasise the firm's quality control policies and procedures, and the requirement to:
- (a) perform work that complies with AUASB Standards, relevant ethical requirements, 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.

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- 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. 19)

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

#### **Relevant Ethical Requirements**

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

A7. [Deleted by the AUASB. Refer Aus A7.1]

Aus A7.1 The firm is required to comply with relevant ethical requirements, including those pertaining to independence, when performing audits and reviews, other assurance engagements and related services engagements, as defined in ASA 102.

A8. [Deleted by the AUASB. Refer ASA 102]

A9. [Deleted by the AUASB. Refer ASA 102]

Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 20-25)

A10. [Deleted by the AUASB. Refer ASA 102]<sup>4</sup>

Independence (Ref: Para. 21)

Aus A10.1 Examples of independence requirements that may be applicable are addressed in the *Corporations Act 2001* Part 2M.3 Division 3, and relevant ethical requirements.\*

Written Confirmation (Ref: Para. Aus 24.1)

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

Long Association with an Entity (Ref: Para. 25)

A12. [Deleted by the AUASB. Refer Aus A12.1]

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<sup>4</sup> [Footnote deleted by the AUASB]  
\* See ASA 102.



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- Aus A12.1 A threat may be created as a result of an individual's long association with:
- The entity and its operations;
  - The entity's senior management; or
  - The underlying subject matter and subject matter information of the assurance engagement.

A13. [Deleted by the AUASB. Refer Aus A13.1]

- Aus A13.1 Relevant ethical requirements include examples of factors that are relevant to evaluating the level of a threat that may arise when an individual is involved in an assurance engagement over a long period of time. Relevant ethical requirements also provide examples of actions to address threats, including:

- Eliminating the threat by rotating the individual off the engagement team; or
- Applying safeguards to reduce the threat to an acceptable level, for example by performing regular independent internal or external quality reviews of the engagement.

A14. [Deleted by the AUASB. Refer Aus A14.1].

- Aus A14.1 Relevant ethical requirements and the *Corporations Act 2001* require the rotation of the engagement partner, the engagement quality control reviewer, and other key audit partners in respect of certain engagements.

Considerations specific to public sector audit organisations

- A15. Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in establishing the policies and procedures required by paragraphs 20-25, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.
- A16. Listed entities as referred to in paragraphs 25 and A14 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when a firm determines, based on its quality control policies and procedures, that a public sector entity is significant for the purposes of expanded quality control procedures.
- A17. In the public sector, legislation may establish the appointments and terms of office of the auditor with engagement partner responsibility. As a result, it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless, for public sector entities considered significant, as noted in paragraph A16, it may be in the public interest for public sector audit organisations to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility.

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

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

- A18. Consideration of whether the firm has the competence, capabilities, and resources to undertake a new engagement from a new or an existing client involves reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, and including whether:

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- Firm personnel have knowledge of relevant industries or subject matters;
- Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- The firm has sufficient personnel with the necessary competence and capabilities;
- Experts are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm is able to complete the engagement within the reporting deadline.

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

A19. With regard to the integrity of a client, matters to consider include, for example:

- The identity and business reputation of the client's principal owners, key management, and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of Australian Accounting Standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
- The identity and business reputation of related parties.

The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

A20. Sources of information on such matters obtained by the firm may include the following:

- Communications with existing or previous providers of professional accountancy services to the client in accordance with relevant ethical requirements, and discussions with other third parties.
- 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. 27(a))

A21. Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous engagements, and their implications for

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continuing the relationship. For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary expertise.

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

A22. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, 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.
  - Aus A22.1 For example, the firm may be required to obtain consent from the Australian Securities and Investments Commission (ASIC) prior to resigning from certain audits.\*
- Documenting significant matters, consultations, conclusions and the basis for the conclusions.

#### *Considerations Specific to Public Sector Audit Organisations* (Ref: Para. 26-28)

A23. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and specific engagements as set out paragraphs 26-28 and A18-A22 may not be relevant. Nonetheless, establishing policies and procedures as described may provide valuable information to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

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

A24. Personnel issues relevant to the firm's policies and procedures related to human resources include, for example:

- Recruitment.
- Performance evaluation.
- Capabilities, including time to perform assignments.
- Competence.
- Career development.
- Promotion.
- Compensation.

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\* See, for example, ASIC Regulatory Guide 26 *Resignation of Auditors* (June 1992).

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- The estimation of personnel needs.

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

A25. Competence can be developed through a variety of methods, including the following:

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

A26. The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures 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.

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

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

- Making personnel aware of the firm's expectations regarding performance and ethical principles;
- Providing personnel with evaluation of, and counselling on, performance, progress and career development; and
- Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.

#### *Considerations Specific to Smaller Firms*

A29. The size and circumstances of the firm will influence the structure of the firm's performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their personnel.

#### *Assignment of Engagement Teams*

Engagement Partners (Ref: Para. 30)

A30. Policies and procedures may include systems to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

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Engagement Teams (Ref: Para. 31)

- A31. The firm's assignment of engagement teams and the determination of the level of supervision required, include for example, consideration of the engagement team's:
- Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;
  - Understanding of AUASB Standards, relevant ethical requirements, 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.

### **Engagement Performance**

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

- A32. The firm promotes consistency in the quality of engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of 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.
- A33. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

*Supervision* (Ref: Para. 32(b))

- A34. Engagement supervision includes the following:
- Tracking the progress of the engagement;
  - Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
  - Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and

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- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

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

A35. A review consists of consideration of whether:

- The work has been performed in accordance with AUASB Standards, relevant ethical requirements, 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. 34-Aus 34.1)

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

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

A38. Effective consultation on significant technical, ethical and other matters within the firm, or where applicable, outside the firm can be achieved when those consulted:

- are given all the relevant facts that will enable them to provide informed advice; and
- have appropriate knowledge, seniority and experience,
- and when conclusions resulting from consultations are appropriately documented and implemented.

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

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

*Considerations Specific to Smaller Firms*

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

- Other firms;

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- 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. 35(b))

- A41. Criteria for determining which engagements other than audits of financial reports of listed entities are to be subject to an engagement quality control review may include, for example:
- The nature of the engagement, including the extent to which it involves a matter of public interest.
  - The identification of unusual circumstances or risks in an engagement or class of engagements.
  - Whether laws or regulations require an engagement quality control review.

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

- A42. The date of the engagement report cannot be earlier than the date on which the engagement quality control review is completed. However, documentation of the engagement quality control review may be completed after the date of the report.
- A43. Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the report.
- A44. The extent of the engagement quality control review may depend, among other things, on the complexity of the engagement, whether the entity is a listed entity, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.

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

- A45. Other matters relevant to evaluating the significant judgements made by the engagement team that may be considered in an engagement quality control review of an audit of a financial report of a listed entity 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 reports of other entities, as well as reviews of financial reports, audits and reviews of other financial information, other assurance engagements and related services engagements.

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Considerations specific to public sector audit organisations

- A46. Although not referred to as listed entities, as described in paragraph A16, certain public sector entities may be of sufficient significance to warrant performance of an engagement quality control review.

*Criteria for the Eligibility of Engagement Quality Control Reviewers*

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

- A47. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of a financial report of a listed entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial reports of listed entities.

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

- A48. The engagement partner may consult the engagement quality control reviewer during the engagement, for example, to establish that a 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. 40)

- A49. The firm is required to establish policies and procedures designed to maintain objectivity of the engagement quality control reviewer. Accordingly, such policies and procedures provide that the engagement quality control reviewer:
- Where practicable, is not selected by the engagement partner;
  - Does not otherwise participate in the engagement during the period of review;
  - Does not make decisions for the engagement team; and
  - Is not subject to other considerations that would threaten the reviewer's objectivity.

Considerations specific to smaller firms

- A50. It may not be practicable, in the case of firms with few partners, for the engagement partner not to be involved in selecting the engagement quality control reviewer. Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the requirements in paragraphs 39-41 and guidance in paragraphs A47-A48 apply.

Considerations specific to public sector audit organisations

- A51. In the public sector, a statutorily appointed auditor (for example, an Auditor-General, or other suitably qualified person appointed on behalf of the Auditor-General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control



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reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

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

- A52. Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.
- A53. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional\* or regulatory body.

#### *Engagement Documentation*

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

- A54. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 45 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.
- A55. Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

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

- A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements to do so.<sup>5</sup> Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.
- A57. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid 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;

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\* For example, Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

<sup>5</sup> See for example, paragraphs R114.1, 114.1 A1 and R360.26 of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

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- 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.
- A58. Controls that the firm designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation may include the following:
- The use of a password among engagement team members to restrict access to electronic engagement documentation to authorised users.
  - Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
  - Procedures for properly distributing engagement documentation to the engagement team members at the start of the engagement, processing it during 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.
- A59. For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In such cases, the firm's procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the engagement teams to:
- Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
  - Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and
  - Enable the scanned copies to be retrieved and printed as necessary.
  - There may be legal, regulatory or other reasons for a firm to retain original paper documentation that has been scanned.

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

- A60. The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.
- A61. In the specific case of audit engagements, the retention period would ordinarily be no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- Aus A61.1 For audits or reviews of financial reports conducted under the *Corporations Act 2001* (the Act), section 307B of that Act requires an auditor or member of an audit firm to retain all audit working papers prepared by or for, or considered or used by, the auditor in accordance with the requirements of the Australian Auditing Standards until:

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- (a) The end of seven years after the date of the audit report prepared in relation to the audit or review to which the audit working papers relate; or
- (b) An earlier date determined by the Australian Securities and Investments Commission for the audit working papers.

Aus A61.2 Relevant law or regulation, other than the *Corporations Act 2001*, may require the retention of audit working papers for specified periods.

A62. Procedures that the firm adopts for retention of engagement documentation include those that enable the requirements of paragraph 47 to be met during the retention period, for example to:

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

Ownership of engagement documentation

A63. [Deleted by the AUASB. Refer Aus A63.1]

Aus A63.1 Unless otherwise specified by law or regulation, engagement documentation remains 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 the independence of the firm or its personnel.

## **Monitoring**

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

A64. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:

- Adherence to AUASB Standards, relevant ethical requirements, 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.

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

- Analysis of:
  - New developments in AUASB Standards, relevant ethical requirements, 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;

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- Continuing professional development, including training; and
  - Decisions related to acceptance and continuance of client relationships and specific engagements.
  - Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training.
  - Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
  - Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.
- A66. 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.
- A67. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the firm may take into account the scope or conclusions of an independent external inspection program. However, an independent external inspection program does not act as a substitute for the firm's own internal monitoring program.

#### **Considerations Specific to Smaller Firms**

- A68. In the case of small firms, monitoring procedures may need to be performed by individuals who are responsible for the 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.

#### **Considerations Specific to Public Sector Organisations**

- Aus A68.1 In the public sector, an auditor appointed under statute (for example, an Auditor-General) may delegate responsibility for an engagement. The monitoring process needs to include, on a cyclical basis, inspection of at least one completed engagement of each person with delegated responsibility for an engagement and its performance. This includes an external person engaged as the person responsible for an engagement.

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

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

#### *Complaints and Allegations*

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

- A70. Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.

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

- A71. Policies and procedures established for the investigation of complaints and allegations may include for example, that the partner supervising the investigation:
- Has sufficient and appropriate experience;
  - Has authority within the firm; and
  - Is otherwise not involved in the engagement.

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

##### Considerations specific to smaller firms

- A72. It may not be practicable, in the case of firms with few partners, for the partner supervising the investigation not to be involved in the engagement. These small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation into complaints and allegations.

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

- A73. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of 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.

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

- Monitoring procedures, including the procedure for selecting completed engagements to be inspected.
- A record of the evaluation of:
  - Adherence to AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements;

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- 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*

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