

# APES 320 Quality Control for Firms

[Supersedes APES 320 Quality Control for Firms issued in May 2009]

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APES 320 *Quality Control for Firms* is based on the *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* (2009) of the *Handbook of the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* of the International Auditing and Assurance Board for Accountants (IAASB), published by the International Federation of Accountants (IFAC) in April 2009 each as amended, and is used with permission of IFAC.

## Contents

	<b>Paragraphs</b>	<b>Section</b>
Scope and application .....		1
Definitions.....		2
Objectives.....		3-5
Applying and complying with relevant requirements .....		6-9
Elements of a system of quality control .....		10-13
Leadership responsibilities for quality within a Firm .....		14-18
Relevant Ethical Requirements .....		19-37
Acceptance and continuance of Client relationships and specific Engagements .....		38-46
Human resources .....		47-57
Engagement performance .....		58-105
Monitoring .....		106-123
Documentation of the system of quality control.....		124-129
Effective date .....		130

*Conformity with International Pronouncements*

*Appendix: Application requirements for Firms*

| *Appendix 1: Summary of revisions to the previous APES 320 (Issued [in](#) May 2009)*

## 1 Scope and application

- 1.1 The primary objectives of APES 320 *Quality Control for Firms* are to specify the mandatory obligations of ~~a Member in Public Practice and~~ a Firm in respect of establishing and maintaining a system of quality control ~~at the Firm level~~ designed to provide it with ~~Reasonable~~ Assurance that the:
- ~~Member and~~ Firm and its Personnel are complying with Professional Standards, Relevant Ethical Requirements and applicable legal and regulatory requirements; and
  - reports issued by the Firm or Engagement Partners are appropriate in the circumstances.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) issues has revised professional standard APES 320 *Quality Control for Firms* (**the Standard**). Systems of quality control in compliance with this Standard are required to be established by Firms by 01 January 2010. This Standard supersedes APES 320 issued in May 2009 and Firms are required to incorporate appropriate amendments to their systems of quality control by 1 April 2016. Earlier adoption of this Standard is permitted.
- 1.3 APES 320 sets the standards for Members in Public Practice ~~and Firms~~ to establish and maintain a system of quality control ~~at the in their Firms level~~ in respect of the provision of quality and ethical Professional Services. The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. APES 320 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.4 Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**
- 1.5 Members in Public Practice practising outside of Australia shall follow the provisions of APES 320 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.6 Members in Public Practice shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.7 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 In applying the requirements outlined in APES 320, Members in Public Practice should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.10 In this Standard, Firms that have an Assurance Practice are required to apply the whole of APES 320 as applicable to their Assurance Practice and Assurance Engagements. Firms that do not have an Assurance Practice, or the non-assurance parts of Firms with an Assurance Practice, are required to apply all paragraphs of APES 320 where applicable other than those boxed and designated 'Assurance Practices only'. The application requirements are summarised in the flow chart in the Appendix to the Standard.
- 1.11 A Firm's Personnel may be required to comply with additional standards and guidance regarding quality control procedures at the Engagement level. For example in respect of Assurance Engagements, Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* (or equivalent predecessor ASA), issued by the Auditing and Assurance Standards Board establishes standards and provides guidance on quality control procedures for audits at the Engagement level.

1.12 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

## 2. Definitions

For the purpose of this Standard:

- (a) **Date of Report** means the date selected by a Member in Public Practice to date a report.
- (b) **Engagement Documentation** means the record of work performed, results obtained, and conclusions the Member in Public Practice reached (terms such as “working papers” or “workpapers” are sometimes used).
- (c) **Engagement Quality Control Review** means a process designed to provide an objective evaluation, on or before the Date of 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 statements of Listed Entities, and those other Engagements, if any, for which the Firm has determined an Engagement Quality Control Review is required.
- (d) **Engagement Quality Control Reviewer** means a Partner, other person in the Assurance Practice, 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.
- (e) **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 Network Firm.
- (f) **Firm** means:
  - A sole practitioner, partnership, corporation or other entity of professional accountants;
  - An entity that controls such parties through ownership, management or other means;
  - An entity controlled by such parties through ownership, management or other means; or
  - An Auditor-General’s office or department.
- (g) **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.
- (h) **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.
- (i) **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.
- (j) **Network** means a larger structure:
  - (a) That is aimed at co-operation; and
  - (b) 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.
- (k) **Network Firm** means a Firm or entity that belongs to a Network.

- (l) **Partner** means any individual with authority to bind the Firm with respect to the performance of a Professional Services Engagement.
- (m) **Personnel** means Partners and Staff.
- (n) **Reasonable Assurance** means in the context of this Standard, a high, but not absolute, level of assurance.
- (o) **Relevant Ethical Requirements** means ethical requirements to which the Engagement Team and Engagement Quality Control Reviewer are subject, which ordinarily comprise Parts A and B of the Code.
- (p) **Staff** means professionals, other than Partners, including any experts the Firm employs.
- (q) **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 audits and reviews of historical financial information, or other assurance or related services Engagements, or of an organisation that provides relevant quality control services.

#### AUST 2.1

For the purpose of this Standard:

- (a) **Assurance Engagement** means an Engagement in which a Member in Public Practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).  
  
This includes an Engagement in accordance with the *Framework for Assurance Engagements* issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.
- (b) **Assurance Practice** means the assurance division or section of a Firm, encompassing every Assurance Engagement conducted by the Firm, whether or not required to be conducted by a Registered Company Auditor and whether or not conducted by an individual auditor, an audit Firm or an audit company.
- (c) **Client** means an individual, firm, entity or organisation to whom or to which Professional Activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.
- (d) **Code** means APES 110 *Code of Ethics for Professional Accountants*.
- (e) **Engagement** means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such an agreement are not part of an Engagement.
- (f) **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.

In public sector audit organisations, the term includes a suitably qualified person to whom the Auditor General has delegated Engagement Partner responsibilities.

- (g) **Independence** is:
- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
  - Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the Engagement Team's, integrity, objectivity or professional scepticism has been compromised.
- (h) **Key Audit Partner** means the Engagement Partner, the individual responsible for the Engagement Quality Control Review, and other audit Partners, if any, on the Engagement Team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the Firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit Partners" may include, for example, audit Partners responsible for significant subsidiaries or divisions.
- (i) **Member** means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body.
- (j) **Member in Public Practice** means a Member, irrespective of functional classification (e.g., audit, tax, or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.
- (k) **Professional Activity** means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.
- (l) **Professional Bodies** means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.
- (m) **Professional Services** means Professional Activities performed for Clients.
- (n) **Professional Standards** means all standards issued by the Accounting Professional & Ethical Standards Board [Limited](#) and all professional and ethical requirements of the applicable Professional Body.

## Objective

3. **A Firm shall establish and maintain a system of quality control designed to provide it with Reasonable Assurance that the Firm and its Personnel comply with Professional Standards and applicable legal and regulatory requirements and that reports issued by the Firm or Engagement Partners are appropriate in the circumstances.**
4. A system of quality control consists of policies designed to achieve the objectives set out in paragraph 3 and the procedures necessary to implement and monitor compliance with those policies.
5. 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.

AUST 5.1 The policies and procedures developed by a Firm need not be complex or time-consuming to be effective. This Standard describes responsibilities for several different roles and functions within the Firm, including overall quality control and Monitoring. For a small Firm, it may be necessary for one person to perform more than one of these functions. In some circumstances, it may be appropriate to use the services of a Suitably Qualified External

Person. When a Firm decides to use such a person, care should be taken to establish the legal responsibilities of the parties and to safeguard Client confidentiality.

## **Applying and complying with relevant requirements**

- 6. Personnel within a 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.**
- 7. A 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 by the Firm.**

### Considerations specific to smaller Firms

8. 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 56), for review responsibilities (see paragraph 63), and for annual communication of the results of Monitoring to Engagement Partners within a Firm (see paragraph 117), are not relevant in the absence of Staff.
9. **The requirements are designed to enable a 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**

10. **A 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.**
11. **A Firm shall document its policies and procedures and communicate them to the Firm's Personnel.**
12. In general, communication of quality control policies and procedures to Firm's 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's 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

13. Documentation and communication of policies and procedures for smaller Firms may be less formal and extensive than for larger Firms.

## Leadership responsibilities for quality within a Firm

14. **A 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.**
15. 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 Professional 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.
16. Of particular importance in promoting an internal culture based on quality is the need for a 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.
17. **A 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.**
18. 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

19. **A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that the Firm and its Personnel comply with Relevant Ethical Requirements.**
20. Ethical requirements are contained in the Professional Standards. The Code establishes the fundamental principles of professional ethics, which include:
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.



21. Part B of the Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.
22. 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.
23. In complying with the requirements in paragraphs 19, 24–26, 29 and 31, the definitions of “Firm”, “Network” and “Network Firms” used in the Relevant Ethical Requirements apply in so far as is necessary to interpret those ethical requirements.

### Independence

24. **A 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’s Personnel) maintain Independence where required by Relevant Ethical Requirements. Such policies and procedures shall enable the Firm to:**
  - (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.**

### Assurance Practices only

25. **A Firm shall establish policies and procedures that require:**
  - (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.**
26. **A 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:**
  - (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 (b)(ii) of the actions taken to resolve the matter, so that the Firm can determine whether it should take further action.**

AUST 27. Guidance on threats to Independence and safeguards, including application to specific situations, is set out in the Code. The Code also requires threats to Independence that are not clearly insignificant to be documented and include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

AUST 28. A Firm receiving notice of a breach of Independence policies and procedures should promptly communicate relevant information to Engagement Partners, others in the Firm as appropriate and, where applicable, experts contracted by the Firm and Network Firm Personnel, for appropriate action. Appropriate action by the Firm and the relevant Engagement Partner should include applying appropriate safeguards to eliminate the threats to Independence or to reduce them to an acceptable level, or withdrawing from the Engagement.

**29. At least annually, a 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.**

30. 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, it's Personnel.

**31. A Firm shall establish policies and procedures:**

- (a) **Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior Personnel on an Assurance Engagement over a long period of time; and**
- (b) **Requiring, for audits of financial statements of Listed Entities, the rotation of the Engagement Partner and the individuals responsible for Engagement Quality Control Review, and where applicable, others subject to rotation requirements, after a specified period in compliance with Relevant Ethical Requirements.**

32. The Code discusses the familiarity threat that may be created by using the same senior Personnel on an Assurance Engagement over a long period of time and the safeguards that might be appropriate to address such threats.

33. Determining appropriate criteria to address familiarity threats may include matters such as:

- (a) the nature of the Engagement, including the extent to which it involves a matter of public interest; and
- (b) the length of service of the senior Personnel on the Engagement.

Examples of safeguards include rotating the senior Personnel or requiring an Engagement Quality Control Review.

34. The Code recognises that the familiarity threat is particularly relevant in the context of financial statement audits of Listed Entities. For these audits, the Code requires the rotation of Key Audit Partners after a pre-defined period, normally no more than five years, and provides related standards and guidance.

Considerations specific to public sector organisations

35. 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 their Independence. Therefore, in establishing the policies and procedures required by paragraphs 19, 24–26, 29 and 31, public sector auditors should have regard to the public sector mandate and address any threats to Independence in that context.
36. Listed entities as referred to in paragraphs 31 and 34 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.
37. 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 36, 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**

38. **A 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;**
  - (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.**
39. Consideration of whether the Firm has the competence, capabilities and resources to undertake a new Engagement from a new or an existing Client involves reviewing the specific requirements of the Engagement and the existing Partner and Staff profiles at all relevant levels, and including whether:
- Firm's Personnel have knowledge of relevant industries or subject matters;
  - Firm's 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.
40. 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, related parties and those charged with its governance.
  - The nature of the Client's operations, including its business practices.

- Information concerning the attitude of the Client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the Client is aggressively concerned with maintaining the Firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the Client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the Firm and non-reappointment of the previous Firm.
- 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.

41. Sources of information on such matters obtained by the Firm may include the following:
- Communications with existing or previous providers of professional accountancy services to the Client in accordance with Relevant Ethical Requirements, and discussions with other third parties.
  - Inquiry of other Firm's Personnel or third parties such as bankers, legal counsel and industry peers.
  - Background searches of relevant databases.
42. **A Firm shall establish policies and procedures that require:**
- (a) The Firm to obtain such information as it considers necessary in the circumstances before accepting an Engagement with a new Client, when deciding whether to continue an existing Engagement, and when considering acceptance of a new Engagement with an existing Client.**
  - (b) If a potential conflict of interest is identified prior to accepting an Engagement from a new or an existing Client or during the conduct of an Engagement, the Firm to determine whether it is appropriate to accept or continue 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.**
43. 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.
44. **A 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.**

45. Policies and procedures on withdrawal from an Engagement or from both the Engagement and the Client relationship should 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 matters, consultations, conclusions and the basis for the conclusions.

Consideration specific to public sector audit organisations

46. 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 in paragraphs 38-45 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

47. **A 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 Professional Standards and applicable legal and regulatory requirements; and**
  - (b) Enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.**
48. Personnel issues relevant to a 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.

49. 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.
50. The continuing competence of a 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 should emphasise the need for continuing training for all levels of the Firm's Personnel, and should provide the necessary training resources and assistance to enable Personnel to develop and maintain the required competence and capabilities.
51. A Firm may use a Suitably Qualified External Person, for example, when internal technical and training resources are unavailable.
52. 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:
- (a) Making Personnel aware of the Firm's expectations regarding performance and ethical principles;
  - (b) Providing Personnel with evaluation of, and counseling on, performance, progress and career development; and
  - (c) 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

53. The size and circumstances of a 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**

- 54. A 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.**
55. 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.
- 56. A Firm shall establish policies and procedures to assign appropriate Personnel with the necessary competence and capabilities to:**

- (a) Perform Engagements in accordance with Professional Standards and applicable legal and regulatory requirements; and**
- (b) Enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.**

57. A Firm's assignment of Engagement Teams and the determination of the level of supervision required, include for example, consideration of the Engagement Team's:
- Understanding of, and practical experience with, Engagements of a similar nature and complexity through appropriate training and participation;
  - Understanding of Professional Standards and 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**

58. **A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that Engagements are performed in accordance with Professional Standards and applicable legal and regulatory requirements, and that the Firm or the Engagement Partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:**
- (a) Matters relevant to promoting consistency in the quality of Engagement performance;**
  - (b) Supervision responsibilities; and**
  - (c) Review responsibilities.**
59. A 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.
60. Appropriate teamwork and training assist less experienced members of an Engagement Team to clearly understand the objectives of the assigned work.
61. 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.

62. A review consists of consideration of whether:

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

**63. A 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

**64. A 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;**

#### Assurance Practices only

**(c) The nature and scope of, and conclusions arising from, such consultations are documented and agreed by both the individual seeking consultation and the individual consulted; and**

**(d) Conclusions resulting from consultations are implemented.**

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

66. 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.

67. Effective consultation on significant technical, ethical and other matters within the Firm, or where applicable, outside the Firm can only 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.



Considerations specific to smaller Firms

68. 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.

**Assurance Practices only**

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

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

**Engagement Quality Control Review**

**70. A 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 Listed Entities;**
- (b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services Engagements shall be evaluated to determine whether an Engagement Quality Control Review should be performed; and**
- (c) Require an Engagement Quality Control Review for all Engagements, if any, meeting the criteria established in compliance with subparagraph 70(b).**

71. Criteria for determining which Engagements other than audits of financial statements of Listed Entities are to be subject to an Engagement Quality Control Review may include, for example:

- The nature of the Engagement, including the extent to which it involves a matter of public interest.
- The identification of unusual circumstances or risks in an Engagement or class of Engagements.
- Whether laws or regulations require an Engagement Quality Control Review.

**Nature, timing and extent of the Engagement Quality Control Review**

**72. A 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.**

**73. A 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.**

74. An 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 Report.
75. 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 Report.
76. 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.
- 77. For audits of financial statements of Listed Entities, a Firm shall establish policies and procedures to require the Engagement Quality Control Review to 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 significant judgements and supports the conclusions reached.**
78. 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 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 of the circumstances, may also be applicable for Engagement Quality Control Reviews for audits of financial statements of other entities as well as reviews of financial statements and other assurance and related services Engagements.

#### Considerations specific to public sector audit organisations

79. Although not referred to as Listed Entities, as described in paragraph 36, 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**

- 80. A 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**

**(b) The degree to which an Engagement Quality Control Reviewer can be consulted on the Engagement without compromising the reviewer's objectivity.**

81. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the Assurance Engagement. For example, the Engagement Quality Control Reviewer for an audit of the financial statements of a Listed Entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit Engagement Partner on audits of financial statements of Listed Entities.
82. 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 should be appointed to take on the role of either the Engagement Quality Control Reviewer or the person to be consulted on the Engagement.
- 83. A Firm shall establish policies and procedures designed to maintain the objectivity of the Engagement Quality Control Reviewer.**
84. Such policies and procedures should 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

85. 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 a Firm contracts Suitably Qualified External Persons, the Firm should follow the requirements and guidance in paragraphs 80-83 and 87.

Considerations specific to public sector audit organisations

86. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of Engagement Partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the Engagement Quality Control Reviewer should include consideration of the need for Independence from the audited entity and the ability of the Engagement Quality Control Reviewer to provide an objective evaluation.
- 87. A 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**

- 88. A Firm shall establish policies and procedures on documentation of the Engagement Quality Control Review which require documentation that:**
- 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 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

- 89. A 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.
- 90. Such policies and procedures shall require that:
  - (a) Conclusions reached be documented and implemented; and
  - (b) The report not be dated until the matter is resolved.
- 91. 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.
- 92. 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*

- 93. A 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.
- 94. 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 93 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.
- 95. Where two or more different reports are issued in respect of the same subject matter information of an entity, a 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*

- 96. A Firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation.
- 97. 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 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.
- 98. 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.
99. 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 Engagement, processing it during Engagement, and collating it at the end of Engagement.
  - Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy Engagement Documentation.
100. 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*

101. **A 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.**
102. The needs of a 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.

103. In the specific case of audit Engagements, the retention period would ordinarily be no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
104. Procedures that a Firm adopts for retention of Engagement Documentation include those that enable the requirements of paragraph 101 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*

105. Unless otherwise specified by law or regulation, Engagement Documentation is the property of a 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 a Firm's quality control policies and procedures*

106. **A 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.**
107. The purpose of Monitoring compliance with quality control policies and procedures is to provide an evaluation of:
- Adherence to Professional Standards and applicable legal and regulatory requirements;
  - Whether the system of quality control has been appropriately designed and effectively implemented; and
  - Whether the Firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
108. Ongoing consideration and evaluation of the system of quality control include matters such as the following:
- Analysis of:

- New developments in Professional Standards and applicable legal and regulatory requirements, and how they are reflected in the Firm's policies and procedures where appropriate;

**Assurance Practices only**

- Written confirmation of compliance with policies and procedures on Independence;
  - Continuing professional development, including training; and
  - Decisions related to acceptance and continuance of Client relationships and specific Engagements.
- Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the Firm's policies and procedures relating to education and training.
  - Communication to appropriate Firm's Personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
  - Follow-up by appropriate Firm's Personnel so that necessary modifications are promptly made to the quality control policies and procedures.

AUST109. In determining the scope of the Inspections, Firms may take into account quality reviews conducted by the Professional Bodies or regulator.

**Assurance Practices only**

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.

110. The Inspection process includes the selection of individual Assurance 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 such as conducted by the Professional Bodies or regulator. 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

111. 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.

*Evaluating, communicating and remedying identified deficiencies*

- 112. A 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 Professional Standards and applicable legal and regulatory requirements, and that the reports issued by the Firm or Engagement Partners are appropriate in the circumstances; or**
  - (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.**
- 113. A 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.**
114. The reporting of identified deficiencies to individuals other than the relevant Engagement Partners need not include an identification of the specific Assurance 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.
- 115. 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 Assurance 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.**
- 116. A 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 Assurance Engagement. Such policies and procedures shall require the Firm to determine what further action is appropriate to comply with relevant Professional Standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice.**
- 117. A 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.**
- 118. 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

**119. A 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 Professional 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's Personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.**

120. 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's Personnel, Clients or other third parties. They may be received by Engagement Team members or other Firm's Personnel.

### **Assurance Practices only**

121. 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.

**122. 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 115.**

### Considerations specific to smaller Firms

123. 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 Suitable Qualified External Person or another Firm to carry out the investigation into complaints and allegations.

### **Documentation of the system of quality control**

**124. A Firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.**

125. 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.

126. Appropriate documentation relating to Monitoring should include, for example:

- Monitoring procedures, including the procedure for selecting completed Engagements to be inspected.
- A record of evaluation of:
  - Adherence to Professional Standards and applicable legal and regulatory requirements;
  - Whether the system of quality control has been appropriately designed and effectively implemented; and
  - Whether the Firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
- 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

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

**128. A 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.**

**129. A Firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.**

#### **Effective Date**

130. Systems of quality control in compliance with this Standard are required to be established [by Firms](#) by 1 January 2010. [This Standard supersedes APES 320 issued in May 2009 and Firms are required to incorporate appropriate amendments to their systems of quality control by 1 April 2016.](#) Firms should consider the appropriate transitional arrangements for Engagements in process at that date.

## ***Conformity with International Pronouncements***

### **APES 320 and ISQC 1**

*APES 320 incorporates ISQC 1 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' issued by the IAASB. Words have only been changed where there is a need to accommodate Australian legislation and environment, and to fit within the structure of APES 320. These changes do not affect the substance of the requirements. Where paragraphs of APES 320 have no equivalent in the corresponding international standard, they are denoted with the letters "AUST" before the paragraph number.*

### ***Compliance with ISQC 1***

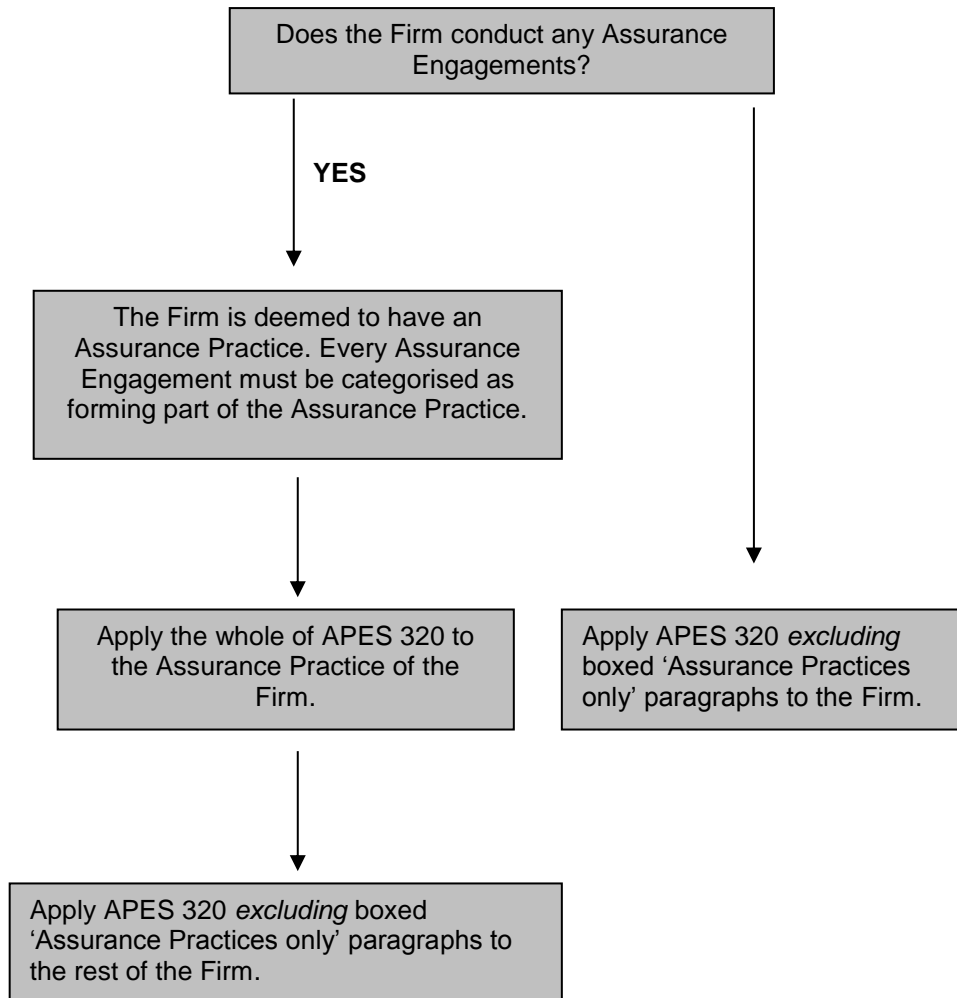
The basic principles and essential procedures of APES 320 and ISQC 1 are consistent except for:

- The addition of paragraphs prefixed as AUST in APES 320; and
- The 'Scope and application section' included in APES 320 in accordance with APESB's drafting conventions.

## Appendix

### Application requirements for Firms

The application requirements for Firms are summarised in the flow chart below.



## Appendix 1

### Summary of revisions to the previous APES 320 (Issued [in](#) May 2009)

APES 320 *Quality Control for Firms* originally issued in May 2009 has been revised by APESB in [November](#) 2015. A summary of the revisions is given in the table below.

**Table of revisions\***

Paragraph affected	How affected
1.1	Added
1.2 – Paragraph 1.1 in existing APES 320 relocated	Amended
1.3 – Paragraph 1.2 in existing APES 320 relocated	Amended
<a href="#">1.6 – Paragraph 1.5 in existing APES 320 relocated</a>	<a href="#">Amended</a>
1.12	Added
2 – Definition of Engagement Quality Control Review	Amended
2 – Definition of Engagement Team	Amended
2 – Definition of Network	Amended
2 – Definition of Network Firm	Amended
2 – Definition of Relevant Ethical Requirements	Amended
2 – Definition of Assurance Engagement	Amended
2 – Definition of Client	Amended
2 – Definition of Independence	Amended
2 – Definition of Member	Amended
2 – Definition of Member in Public Practice	Amended
2 – Definition of Professional Activity	Added
2 – Definition of Professional Bodies	Amended
2 – Definition of Professional Services	Amended
<a href="#">2 – Definition of Professional Standards</a>	<a href="#">Amended</a>
<a href="#">130</a>	<a href="#">Amended</a>
<a href="#">Appendix 4</a>	<a href="#">Added</a>

\* Refer *Technical Update 2015/13*