

**HANDBOOK**

**ON**

**PUBLIC PRACTICE**

**INCLUDING**

**ISQC1 & ISA 220**

**ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA**  
*(Founded in 1979 and Chartered by Act 76 of 1993 Now CAP A26 LFN 2004)*

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## SECTION 1

### PUBLIC PRACTICE

- 1 Association of National Accountants of Nigeria (ANAN) is a body of Accountants established by the Act of National Assembly and is empowered to issue Practicing Licence to its members who have satisfied the requirements for practice as public Accountants and Auditors. Members of the Association holding valid Practicing License are qualified for appointments as Auditors of Companies in accordance with Section 358 of the Companies and Allied Matters Act 1990. They are also qualified for appointments as Auditors and Accountants of entities in both Public and Private Sectors.
- 2 Association of National Accountants of Nigeria has formally adopted the pronouncement of International Auditing & Assurance Standards Board (IAASB) contained in International Standard on Quality Control (ISQC). All members of ANAN who are engaged in Public Practice are obliged to comply. In case of difference between the old contents of ANAN Handbook on Public Practice and ISQC the directives of the latter shall prevail, similarly members are required to abide by the directives of International Standard on Auditing (ISA) 220.
- 3 No member of the Association may engage in Public Practice, unless he is in possession of a valid Practicing Licence issued by the Council of the Association authorizing him to practice in accordance with Rule 17.
- 4 In Pursuant to Rule 17, (as amended) for any member of ANAN to engage in Public Practice, he must be in possession of:
  - a) Practice Certificate which attests to his personal competence after he has served in the office of an approved Public Practitioner for 36 months in the capacity of a Practitioner Assistant.
  - b) Practice licence which shall only be granted after meeting all the prescribed requirements put in place by the Council as pre-conditions for the commencement of public practice such as

accommodation, personnel, equipment, etc.

5. Practice Certificate remains the property of ANAN but may not be subject of renewal, while Practice Licences shall be subject of renewal every 3 years subject to fulfillment of conditions including:
  - a) Satisfactory report of ANAN Quality Assurance Review Team (AQART);
  - b) Satisfactory report of ANAN Quality Assurance Inspectors (AQAI);
  - c) Participation in capacity building and enhancement programme during the period;
  - d) Update payment of subscriptions, dues and other levies;
  - e) Other conditions as may be prescribed from time to time by the Council.
  
6. Members in Public Practice shall be known and called **CERTIFIED NATIONAL ACCOUNTANTS** and the practice of Accountancy shall be full time. Thus members with other gainful employment, either in Industry, Government or Commerce, are not eligible to practice.
  - (a) A member practices as a Certified National Accountants, if he/she is, or holds himself/herself out (whether expressly or by implication) to be practicing Accountancy as a Professionally Qualified Accountant or as an expert in Accounting, Auditing, Taxation or Management matters.
  - (b) A member practices Accountancy if, for reward, he prepares or audits or examines Financial Accounts or issues any written opinion, report or certificate concerning any such statements.
  - (c) A member does not practice Accountancy as aforesaid by reason only that he does so in course of his duties as an employee of any person.
  - (d) Members wishing to practice should formally make application for the Practising Certificate and Practicing Licence in the prescribed manner.
  - (e) Any member who contravenes the above provisions shall be guilty of an offence and liable to disciplinary action. The disciplinary powers which the Council may exercise as aforesaid in respect of any such member are as follows:
    - i. The Council may cause the name of such member to be removed from the register;
    - ii. The Council may suspend the member for any period not exceeding one year;

- iii. The Council may reprimand such member;
- iv. The Council may order such member to pay to the Association such sum as the Council thinks fit in respect of the costs and expenses of and incidental to the enquiry; and
- v. The Council may apply two or more of the above sanctions.

(f) In every case where the Council has exercised any of its disciplinary powers in respect of any member, the Council shall notify that member in writing accordingly and will inform him of right of appeal. In any case where the Council causes the name of any member to be removed from the register, the Council may, as part of its decision, fix a time before which the member whose name is so removed shall not be eligible to apply to the Association for re-admission.

7. Member of the Association making application for Practising Certificate and Practising Licence shall for the time being pay application fee as prescribed in the Guidelines for Issuance of Practising Certificate & Licence.

## 8. **CERTIFIED NATIONAL ACCOUNTANTS**

A member of the Association practicing in partnership with any person who is not a member of the Association under the title of a firm shall not use after the title of that firm the initials CNA or describe the firm in any way whatsoever as Certified National Accountants

## 9. **POST QUALIFYING EDUCATION (PQE)**

- a) Commencing from 1<sup>st</sup> January 1981, members in Public Practice shall be required to have attended the Association's post-qualifying courses organized in preceding year. Members in Public Practice shall produce evidence of attendance of Mandatory Professional Practice Forum (MPPF) as well as the Mandatory Continuing Professional Development (MCPD). These shall be part of the conditions for renewing Practising Licence.

- b) The Association may create opportunity for its members in public practice to become specialists/experts in certain sections of the profession by providing them with advanced skills and training. Members who had successfully completed the specialist training may be allowed to join the appropriate special units of public practitioner with peculiar group advantage as approved from time to time subject to terms and conditions prescribed by the Council.
- c) Members of ANAN in Public Practice shall be encouraged to collaborate with International network/Association of International Accounting firm(s) to assist in bench marking and networking for best practices.

10. **RESTRICTION ON PUBLICITY**

Members of the Association of National Accountants of Nigeria are not allowed to advertise or circularize for business in manners not approved by the Council.

## SECTION 2

### **GUIDELINES FOR ISSUANCE OF PRACTICING CERTIFICATE AND PRACTICING LICENCE**

The subsisting guidelines for the issuance of Practicing Certificate are contained in section 17 of the Rules of the Association. *As a result of recent developments, the Council has adopted a two-phased authorization for the practice of public accountancy and has therefore approved that with effect from January 2011 members of the Association holding Practicing Certificate shall require a Practicing Licence which shall be issued in the name of a firm approved by the Association and duly registered with the Corporate Affairs Commission. The two phased authorizations are:*

- i. **Practicing Certificate** which shall be issued to individual members who have satisfied the required period of training and other conditions and have been able to satisfy the Association as to his personal competence and;
- ii. **Practicing Licence** which shall be issued to the firm duly registered by member(s) of the Association who is/are in possession of Practicing Certificate(s) subject to such firm being able to satisfy the minimum requirements set by the Association from time to time for the operation of a member firm in terms of infrastructure, accommodation, personnel, equipment, etc.

The major difference in the new approach and the former is that practicing seals and stamps shall be issued to licenced member firm(s) only.

The Seal which shall be customized shall have the following features:

- (a) Name and logo of the Association.
- (b) Name of the firm
- (c) The Practicing Licence number allotted to the firm.

The number of stamps to be issued to a licenced member firm each year shall be influenced by the number of partner(s) in the member firm.

## **I. PRACTICING CERTIFICATE**

*Procedures to be followed by a member who is desirous of obtaining a Practicing Certificate are described below:*

- i. A member that needs Practicing Certificate shall approach a practice firm being run by member(s) of the Association and hold(s) valid Practicing Licence for an opportunity to train in his/her firm as a Practitioner Assistant.
- ii. The member seeking to practice shall obtain a Practitioner Assistant Scheme (PAS) form from the Secretariat of the Association. (See Appendix A1).
- iii. The trainee and the trainer/practitioner are to jointly complete and forward a set of two PAS forms to the Secretariat of the Association. The PAS forms must be submitted to the Association immediately the trainee commences training. One of the two forms sent to the Secretariat will be acknowledged and returned to the trainer/practitioner.
- iv. At the completion of the approved period of training, the Practitioner Assistant shall obtain Application for Practicing Certificate (APC) Form from the Secretariat. The form will be duly completed by Practitioner Assistant and the Practitioner and thereafter forward same to the Secretariat with the required documents.(see Appendix A2)
- v. If the application form satisfies necessary conditions, the applicant may be invited for interview/interactive session with the Practicing and Quality Control Committee for an assessment of his/her level of



preparedness and character. After the interview, if the applicant is found to be fit and proper person to be issued Practicing Certificate, the Committee shall so recommend the application to the Council for approval.

- vi. If Council approves the application, the applicant is informed of the financial implication and other conditions attached to the issuance of Practicing Certificate.

**Note**

*The supervising partner in the firm where the Practitioner Assistant trained who must not be indebted to the Association, is under obligations to endure full observance of the appropriate rules as well as procedures prior to recommending the Practitioner Assistance to the Association.*

## **2. PRACTICING LICENCE**

*Members holding Practicing Certificates and desirous of obtaining Practicing Licence are advised to follow the procedures enumerated here below:*

- i. Practicing Licence shall be issued only to practicing firm and not individual members.
- ii. The applicant(s) for Practicing Licence shall complete Application for Practicing Licence Form in which the name of the firm shall be clearly stated.(see Appendix B1).The name so completed on the forms must have been registered with the Corporate Affairs Commission.
- iii. If the name of the firm submitted conflict with any other one in existence, the Association may advise the applicant to make necessary amendments before the application is processed.
- iv. The applicant must be up-to-date in payment of his/her dues and the discharge of his/her duties to the Association which include attendance at Mandatory Continuing Professional Development (MCPD, Mandatory Public Practitioners Forum (MPPF), Annual National Conference, etc.

- v. In case of Partnership, each partner shall be expected to fulfill the conditions enumerated above.
- vi. The Practicing and Quality Control Committee shall physically check on the information contained in the Application for Practicing Licence Form submitted particularly in respect of office location, personnel, and equipment before making recommendation to the Council.
- vii. The expiry date for Practicing Licence shall be 31<sup>st</sup> December of the 3<sup>rd</sup> year following the year of issuance (i.e. three calendar years).

### **3. TRANSITION ARRANGEMENTS AND RENEWAL OF PRACTICING LICENCE**

- i. Existing Practicing Firms with more than one partner shall be required to include evidence of Agreement or Memorandum of Understanding (M.O.U.) with provisions for:
  - a. Dissolution of the Partnership or Withdrawal of Partner(s)
  - b. Disputes Resolution Mechanism.
- ii. The Sole Practitioner shall also indicate arrangement for protection of clients' interests in the event of unforeseen occurrence such as death or prolonged illness.
- iii. Firms applying for renewal of Practicing Licences shall show evidence of adequate Professional Indemnity Insurance Cover.
- iv. Renewal of Practicing Licence may not be effected in the case of firms that were not available for Quality Assurance Review Team visit.
- vi. The Association shall publish the names of licenced firms at approved intervals.

### **4. ISSUANCE OF PRACTICE STAMPS**

The Association shall issue Practice Stamps to practicing firms at varying units

based on the estimated strength of the firms as follows:

a.	Sole Practitioner	-	10 Units of Stamps per year
b.	2 3 Partners	-	15 Units of Stamps per year
c.	4 6 Partners	-	20 Units of Stamps per year
d.	7 10 Partners	-	25 Units of Stamps per year
e.	11 and above	-	30 Units of Stamps per year.

Any Practicing Firm desirous of obtaining more than the stipulated number of Practice Stamps shall apply formally. If the request is granted, the Practice Stamps shall be released to the Firm at the subsisting price fixed by the Association.

Transfer of Practice Stamp by a firm to another firm or individual shall be treated as Professional misconduct.

## 5. **CHANGES BY LICENCED FIRMS**

Changes may occur in Licenced Practicing Firms and these must be communicated to the Association as guided below:

- i. **Change of name without change in the number of Partner(s)**  
Partner(s) should communicate their intention to the Association for approval before use of name.
- ii. **Change of name with change in the number of Partners**  
The existing Partner(s) and the new/withdrawing partner(s) shall communicate their desire to the Association with copy of the Memorandum of Understanding for approval by the Association.
- iii. **Change of name due to local or foreign affiliation**  
The firms involved shall submit joint Application along with copy of MOU to the Association for approval.

iv. **Change of name due to Merger**

The merging firms shall submit joint request for approval of the Association accompanying same with copy of MOU.

In any of the above cases, application for change of name/status form shall be obtained (see Appendix B3). New licence and seal shall be issued after approval by the Association as replacement for the old one which must be returned by the Firms concerned.

The cost for such replacement shall, from time to time, be fixed by the Association.

**6. APPLICABLE FEES**

The following fees, which are subject to review from time to time shall for the time being, be applicable.

i.	<b>Practicing Certificate</b>	
	Practitioner Assistant Scheme (PAS) Form	N10,000
	Practicing Certificate Application Form	N10,000
	Practicing Certificate Processing Fee	N50,000
ii.	<b>Practicing Licence</b>	
	Practicing Licence Application Form	N15,000
	Practicing Licence Processing Fee and Seal:	
	(a) Sole Practitioner	N50,000
	(b) 2 - 3 Partners	N100,000
	(c) 4 - 6 Partners	N200,000
	(d) 7 - 10 Partners	N400,000
	(e) 11 and above	N750,000
iii.	<b>Renewal of Practicing Licence</b>	
	Application Form	N10,000
	Processing Fee:	

(a)	Sole Practitioner	N25,000
(b)	2 - 3 Partners	N50,000
(c)	4 - 6 Partners	N100,000
(d)	7 -10 Partners	N200,000
(e)	11 and above	N400,000

## SECTION 3

### CHANGES IN A PROFESSIONAL APPOINTMENT

1. A Professional Accountant in public practice who is asked to replace another Professional Accountant in public practice, or who is considering tendering for an engagement currently held by another Professional Accountant in public practice, should determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. For example, there may be a threat to professional competence and due care if a professional accountant in public practice accepts the engagement before knowing all the pertinent facts.
2. The significance of the threats should be evaluated. Depending on the nature of the engagement, this may require direct communication with the existing Accountant to establish the facts and circumstances behind the proposed change so that the Professional Accountant in public practice can decide whether it would be appropriate to accept the engagement. For example the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing Accountant that may influence the decision as to whether to accept the appointment.
3. An existing Accountant is bound by confidentiality. The extent to which the Professional Accountant in public practice can and should discuss the affairs of a client with a proposed Accountant will depend on the nature of the engagement and on:
  - (a) Whether the client's permission to do so has been obtained; or
  - (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.
4. In the absence of specific instructions by the client, an existing Accountant

should not ordinarily volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of ANAN Members Guide on Professional Ethics.

5. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

6. Such safeguards may include:

Discussing the client's affairs fully and freely with the existing Accountant;  
Asking the existing Accountant to provide known information on any facts or circumstances, that, in the existing Accountant's opinion, the proposed Accountant should be aware of before deciding whether to accept the engagement:

When replying to requests to submit tenders, stating in the tender that before accepting the engagement, contact with the existing Accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted.

7. A Professional Accountant in Public Practice will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion with an existing Accountant. Once that permission is obtained, the existing Accountant should comply with relevant legal and other regulations governing such requests. Where the existing Accountant provides information, it should be provided honestly and unambiguously. If the proposed Accountant is unable to communicate with the existing Accountant, the proposed Accountant should try to obtain information about any possible threats by other means such as through inquiries of third parties or background investigations on senior management or those charged with governance of the client.

8. Where the threats cannot be eliminated or reduced to an acceptable level

through the application of safeguards, a Professional Accountant in public practice should, unless there is satisfaction as to necessary facts by other means, decline the engagement.

9. A Professional Accountant in public practice may be asked to undertake work that is complementary or additional to the work of the existing Accountant. Such circumstances may give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include notifying the existing Accountant of the proposed work, which would give the existing Accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

## **FEES AND OTHER TYPES OF REMUNERATION**

1. When entering into negotiations regarding professional services, a Professional Accountant in public practice may quote whatever fee deemed to be appropriate. The fact that one Professional Accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and the care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.
2. The significance of such threats will depend on factors such as the level of the quoted and the services to which it applies. In view of these potential threats, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards which may be adopted include:
  - Making the client aware of the terms of the engagement and, in particular the basis on which fees are charged and which services are covered by the quoted fee.
  - Assigning appropriate time and qualified staff to the task.



3. Contingent fees are widely used for certain types of non-assurance engagements. They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. They may give rise to a self-interest threat to objectivity. The significance of such threats will depend on factors including:

- The nature of the engagement.
- The range of possible fee amounts
- The basis for determining the fee.
- Whether the outcome or result of the transaction is to be reviewed by an independent third party.

4. The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:

- An advance written agreement with the client as to the basis of remuneration.
- Disclosure to intended users of the work performed by the Professional Accountant in public practice and the basis of remuneration.
- Quality control policies and procedures.
- Review by an objective third party of the work performed by the professional accountant in public practice.

5. In certain circumstances, a Professional Accountant in public practice may receive a referral fee or commission relating to a client. For example, where the Professional Accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another Professional Accountant in public practice or other expert. A Professional Accountant in public practice may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission may give rise to self-interest threats to objectivity and professional competence and due care.

6. A Professional Accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another Professional Accountant in public practice but requires specialist services not offered by the existing Accountant. The payment of such a referral fee may also create a self-interest threat to objectivity and professional competence and due care.
7. A Professional Accountant in public practice should not pay or receive a referral fee or commission, unless the Professional Accountant in public practice has established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:
- Disclosing to the client any arrangements to pay a referral fee to another Professional Accountant for the work referred.
  - Disclosing to the client any arrangements to receive a referral fee for referring the client to another Professional Accountant in public practice.
  - Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.
8. A Professional Accountant in public practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owing the firm or to their heirs or estate. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs 5-7 above.

a) *Transfer of books and papers*

The existing Auditor should transfer promptly to the new Auditor after he has been duly appointed, all books and papers of the company which are in his possession, unless he is exercising a lien thereon for unpaid fees.

19. *Appointment of a Joint Auditor or fill a casual vacancy*

When a member is invited by an organization to accept appointment as a Joint Auditor or to fill a casual vacancy he should be guided by principles similar to those set out above in relation to nomination for appointment by the organization. Where, however, a casual vacancy arises through the death or incapacity to the existing auditor the member will need to adapt his procedure in the light of the particular circumstances, obtaining such information as he may need from the existing Auditor's office or partners if any.

20. *Business acquired by a new company*

When a member is asked to accept appointment as Auditor of a new company formed to acquire an existing business and the ownership of the company is substantially the same as it was in the acquired business the member should communicate Auditor who acted for that business.

21. *Auditor of a body other than a company*

When a member is invited to accept nomination or appointment as Auditor of a body other than a company, he should be guided by the same considerations as those indicated above in relation to a company. This applies whether the appointment is as Auditor of an incorporated body or an unincorporated organization or a partnership or an individual.

22. *Appointment other than as Auditor*

The considerations arising on a change of Auditor apply to a large extent also where a member is invited to undertake other recurring professional work in place of another Accountant. A member may be invited to undertake special professional work which is additional to that already being carried out by another Accountant who will still continue with his existing duties. In that event it is normally desirable, as a matter of professional courtesy for

the member to notify the other Accountant that he is undertaking the special work, unless the client gives a valid reason why such notice should not be given.

## SECTION 4

### ENGAGEMENT LETTERS

*In the Councils' view it is in the interests of both client and Accountant that the scope of the work which a practicing Accountant undertakes for a client should be defined in writing preferably in the form of a letter from the Accountant to his client. This statement is intended to assist the Accountant in the preparation of such letter.*

#### **Purpose**

1. The purpose of a Letter of Engagement from an Accountant to a client is to follow up verbal arrangements by defining the scope of his responsibilities. The letter should cover the points which have been agreed verbally between the Accountant and his client at an earlier interview. Though each letter must be in terms appropriate to the particular engagement, there are certain general points which arise in each case.

#### **Principal contents**

2. In a letter of engagement relating to an appointment as Auditor, there are two main matters which are important to set out clearly:
  - (a) that the functions of an Auditor are distinct from the provision of accountancy and other services.
  - (b) That it is not the main purpose of an Auditor to discover defalcations and irregularities, and that an audit should therefore not be relied on for that purpose.

#### **The Significance of the Auditors' Report**

3. An Auditor examines accounts presented to him and expresses a professional opinion on them in a report. In the case of an Auditor under the Companies and Allied Matters Act and certain other Acts,
  - (a) The matters to be reported on are laid down by the Act and

- (b) The Auditor has further obligation to report on certain matters but only if he is not satisfied on any of them.

These points should be made clear in the letter, if the auditee entity qualify as a listed or significant public interest entity, the letter should contain the following:

With the coming into effect of the Financial Reporting Council of Nigeria Act 2011, your Organization is now categorized as Public Interest Entity and your financial report must comply with the requirements of the provisions of International Financial Reporting Standards (IFRS) beginning from 1<sup>st</sup> January, 2013. Similarly our reports shall also be in conformity with the IFRS provisions.

4. Other cases in which an audit is required whether by statute or by client, the similarity is that the expression by the Auditor of his professional opinion as to the truth and fairness of the view presented by the accounts is the prime object of the audit, but they differ in that silence upon specified matters does not imply that the auditor is satisfied with regard to them. If therefore in such other cases a member wishes to take advantage of the silence 'implies satisfaction principle', he can only do so if it is so agreed with the client, and the agreement should be recorded in the letter of engagement.

### **Qualified Reports**

5. In arriving at his opinion there may be occasions when there are differing points of view with regard to material item in the accounts which cannot after discussion be reconciled. In these circumstances the Auditor has no opinion but to qualify his report.

### **Defalcations and Irregularities**

6. With regard to defalcations and irregularities care must be taken not to create the impression that the Auditor assumes no responsibility. He must exercise the care and skill of a reasonably competent and careful Auditor in the circumstances of the case, but in the context of an examination designed to enable him to express his opinion and not in the context of an

investigation specifically directed to the discovery of defalcations and irregularities. Mention should be made of the director's responsibilities for ensuring that adequate accounting records are kept, that annual accounts showing a true and fair view are prepared, and that there are proper systems of internal control- the best method of preventing irregularities.

### **Scope of Engagement**

7. The letter should stress two points in connection with the scope of the work to be done:
  - (a) that an essential feature of an audit is a critical review of the client's system of internal control;
  - (b) that the audit tests and enquiries made
    - (i) will be those that the Auditor thinks necessary, which will be influenced by the effectiveness of the system of internal control;
    - (ii) may cover all aspects of the business, not only the financial records

Mention could also be made of any particular audit procedures, such as attendance to observe the client's stock-taking procedures. Auditors should bring to the attention of management & those charged with governance, preferably in writing, material weaknesses in the system of internal control which come to their notice. In the case of a larger company client, it may be preferable to bring to the attention of that client the fact that it will be practicable for the Auditors to review only a proportion of the internal control system each year.

### **Accounting services**

8. In the case of many sole traders, partnership and unincorporated associations the client often does not require the Accountant to do anything more than prepare his records, in which case it must be explained that an audit will not be carried out. This is a matter better dealt with at an interview, when it can be pointed out that the term 'audit' is often incorrectly used. Even when a member has not been appointed as Auditor. However, it is recommended (see appendix D) that he should attach to the accounts a

report stating that he has prepared the accounts, with such observation as will ensure that the association of his name with the accounts does not imply that they can be regarded as more reliable than the circumstance warrant. It may not be possible for an accountant to state in a letter of appointment in what terms he will report on the accounts, but he could take the opportunity to point out that he will make such tests of the records and such further enquiries as he considers necessary to enable him to prepare the accounts, and that he will report to the client material weaknesses in his accounting system which come to his (the accountant's) notice.

## Other Services

9. Other services which the accountant is asked to provide should be defined as clearly as possible and it is appropriate to use such phraseology as *'you require us to assist you with certain accounting services, namely'* or *'you have authorized us act on your behalf in the preparation of tax computations'*; when recording an engagement to assist a client to deal with taxation affairs, the phraseology adopted should be consistent with the fact that in the affairs the accountant is acting as the agent of the client.
  - a) The letter should include a note of any limitations as to time or otherwise imposed by the client, and of any assumptions upon which he has required the work to be based. Where such limitations may affect the quality of the work to be done, this should be pointed out in the letter.
  - b) Ignorance of the other services available sometimes leads to the client failing to ask for help which the accountant could provide, if requested. The opportunity could therefore be taken, if thought appropriate, to mention any other services, i.e. in addition to auditing, tax and accounting services, which the member is prepared to offer clients, such as-
    - i. Accountants reports in support of claims for investment grants, or other claims or returns;
    - ii. Advice on financial matters;
    - iii. Management Accounting Services and a review of the client's system of book-keeping;



- iv. Investigations and reports for special purposes, such as investigation into suspected defalcations or other irregularities, and reports on businesses it is proposed to acquire.

For further details, refer to ANAN Audit Guidelines for Small and Medium Scale Enterprises

### **Services subsequently provided**

10. a) Additional services undertaken for a client should be recorded in a letter in the same way as an initial engagement, and the completion of an audit or tax return could be the occasion for a review of the record engagements.
- b) An auditor of a company may render professional advice or service of taxation, secretarial and financial management matters.
- c) Members may consider it appropriate in a letter of engagement to mention fees and the general basis on which fees are normally computed (see appendix E). It is also desirable that fees should be charged separately for each main class of work carried out for the client (e.g. Accounting, Taxation and Other Services) and that the client should be so informed. If thought appropriate, mention might also be made of interim statements being rendered and payments being made on account as work progresses.

### **Specimen of Engagement letters**

15. Appended are specimen forms of letters of engagement-

- a) For a company client- to audit the accounts
- b) For a sole trader partnership or un-incorporated association.

These letters are specimens only, and should be varied according to circumstances. The headings to certain paragraphs are to assist of the specimen forms; it is not suggested that they should necessarily be reproduced in a letter of engagement.

## SECTION 5

### COUNCIL'S STATEMENT ON MANAGEMENT CONSULTANCY

1. The restrictions on publicity hitherto governing members of the Association in public practice have prevented members from playing their full part in the development of management consultancy service. This has resulted in loss of work to management consultancy organizations which are not bound by the ethical restriction. It also resulted in a loss to the community as a whole since Certified National Accountants are especially well-equipped to provide these services.
2. The function of the Accountancy Profession is to make available to the public the best possible professional and technical advice and services. In this respect the client's interests are paramount. The Certified National Accountant in Public Practice should be able to obtain for his client the best advice available from within the profession if he does not have the specialized knowledge and experience to enable him to undertake some particular assignment. He should be able to do this without fear of losing to the consultant or to a firm associated with the consultant the audit or other service already provided.
3. The Council's guidance to members is set out in paragraph 4 below. It is designed to meet the challenges referred to in paragraphs 1 and 2 above by:
  - a. liberalizing restrictions on the provision and publicizing by members for management consultancy service; and
  - b. strengthening the position of practicing members as regards referrals to consultants (in this connection particular attention is invited to paragraphs 4 (h) and (i) below).
4. (a) A member or firm in which a member is a partner (hereinafter referred to as the member's firm') may, with the approval of the council, operate in accordance with the provisions of this paragraph a limited or unlimited company or separate firm (hereinafter referred to as the

- consultancy) whether or not associated with non-members, to provide management consultancy service.
- (b) The Consultants may use the same, or a similar name, and operate from the same address as the member's firm.
  - (c) The consultants may use the description Management Consultant; or other appropriate description (but NOT the description Certified National Accountants) and will not be bound by the present restrictions on publicity.
  - (d) The Consultants should not advertise or solicit for work, but publicity for Consultants in the press or on radio or television, for assignments carried out or to be carried out is permitted. The issue of a brochure to a non-client in response to an unsolicited request is also permitted.
  - (e) A partner in the member's firm may be a director or partner of the consultants
  - (f) A member who is a director, partner or employee of the Consultants may describe himself personally as a Certified National Accountant and use the designatory letters to which he is entitled. He may mention the name of the Consultants in connection with any articles in the press or any lectures which he may be asked to write or deliver.
  - (g) Before accepting an assignment the Consultants should communicate, as a matter of professional courtesy, with the Auditor or Accountant concerned, except in cases where the client advances valid reasons to the contrary (cases of doubt may be referred to the Association and thereafter should keep such Auditor or Accountant informed as to the general nature of the work which the consultants are doing)
  - (h) Consultants called upon to render management consultancy services to the client, have, not merely the negative duty of refraining from soliciting any work which is being performed by that other Practitioner but the positive duty of taking all steps reasonably open to them to support the other Practitioner in retaining his relationship. The latter has an equivalent duty to his professional colleagues to support the relationship between the Client and the Consultants.
  - (i) The consultancy should not be used to attract audit or conventional

accountancy work to the member's firm. In the event of a complaint the onus would be on the Consultants to satisfy the Association that they had not been instrumental in attracting work from an existing Accountant. If the Consultants are unable so to satisfy the Association, members of the Association who are directors or partners therein or partners in the member's firm could render themselves liable to disciplinary action.

- (j) There are no restrictions on column width for advertisement for staff.
- (k) The consultants, may, if eligible, join the Management Consultants Association.

## SECTION 6

### PROFESSIONAL PRACTICE

No one who has been in practice can pretend that success is entirely something one can learn from books or studies. To a certain extent, successful practice depends on being interested in your fellows how they earn their money, how efficient they are, their business and their family problems and them as people. It is a sympathetic interest, and the word which sums up how it is translated into action is "service". Most advice, though based upon technical knowledge and training, is applied by the use of common sense. This is never truer than in the field of auditing and investigations.

#### 1. Special assignments

There is no doubt that special work has a tremendous attraction for all Practicing Accountants, and although the bread-and-butter work of most Practitioners is usually accountancy, taxation and auditing, the interest to be obtained from special assignments such as investigation makes it attractive area to enter. Here again it is by identifying yourself with your client outlook and his needs that you will best do such work and by the application of your knowledge of the circumstances of his existing business with common sense that you will find it easy to do so. If you receive instruction from a client to do this type of work (and it is essential that there be a written confirmation of those instructions) then it is because your client believes you can give him a meaningful report and he trusts your judgment and your understanding of his affairs.

It is not everyday that specialist work will arrive on your desk. Many Practicing Accountants can find that their whole activities are confined to routine. Yet even the most ordinary common place audit or accountancy work can be made into a special activity by looking at each job from the client's viewpoint. Mere arithmetical accounts serve a purpose. They tell what profit has been earned and enable taxation liabilities to be agreed. Most Accountants for their own satisfaction record some key ratios on each job in their working papers. If the accounts produced and submitted to clients are laid out in an attractive form leaving room for the addition of statistical

information of this sort, and if a short report on the major variation in these ratio is added, a valuable record is made available and the client feels that he is receiving something of practical use from someone who has identified himself with the business and its problems.

This is most valuable also to the Accountant. It makes the ordinary work interesting. It serves as a useful means of showing clients your ability to handle specialist work and will lead to personal recommendation to new clients who will be attracted by your approach.

## **2. Practice Administration and Ethics**

Personal recommendation is of course the ideal way of obtaining new business and expanding your practice. We all believe that there is merit in expansion, partly because we take a great deal of pride in our own practice and partly as a sort of insurance against loss of those of our existing clients who retire or move away whose businesses are taken over by other companies.

Certainly there is no sure way of expanding. Putting up a nameplate and waiting is a long and tedious business, but if you are starting from the scratch, the selection of the place for your office is vital. Offices over Banks or near Solicitors' Chambers are good spots. Even if other Accountants are already there you will find advantages in such areas.

Then there is the arrangement of your accommodation. A pleasant reception area with proper and comfortable seats for waiting, insistence upon bright and attentive reception staff, the prompt answering of the telephone; all these assist in giving the right image. We all need to deal with our mails promptly. Even at the risk of upsetting clients who call in and expect to be seen early in the morning may have to be put off tactfully and new appointments made, provided that no client in a genuine, emergency situation is turned away. The telephone too can be a bad master, and it may be necessary to be to oneself sometime in a day simply to avoid losing one's sanity.

Keeping proper time records of work done for clients is essential but they do not need to be unduly complicated. Telephone conversations should be noted on memo pads in duplicate; one copy for filing on the client's file and the other copy as an aid to charging the client's for advice.

The appointments diary and the copies of letters are a good source for keeping a regular system of billing, they help the client and you.

As a practice grows so will the staff. Delegation of duties will then be inevitable and one must train oneself for supervision often through insistence upon the highest quality of wording papers. If these are the rules even in the smallest jobs, then control can be maintained and the quality of the firm's works as a whole assured. With that will come your own personal satisfaction-possibly your greatest reward.

### **3. OFFICE ACCOMMODATION AND QUALITY CONTROL ASSURANCE MECHANISM**

- (1) The office accommodation should be enough to provide for seclusion of the Managing Partner from his staff
- (2) The office should be located in a commercial or business area and if it has to be located in a residential or dwelling house, the office of the practitioner should occupy a conspicuous place that will be easily noticeable to people.
- (3) The sign post of the firm should be conspicuous but moderate.
- (4) The Practitioner should have a minimum number of personnel as follows:-
  - i. One Audit Assistant not below B.Sc/HND Accounting
  - ii. One Computer literate Secretary
  - iii. One Messenger / Cleaner
- (5) The Practitioner's office should have moderate furniture comprising of tables and chairs for the Managing Partner and his staff.
- (6) At least, there should be one set of computer
- (7) Lockable filing cabinet
- (8) The Practitioner is advised to take up Professional Indemnity Insurance.
- (9) The Practitioner while in full practice should not carry out other business incompatible with normal Accounting Practice

## SECTION 7

### THE RETENTION AND DISPOSAL OF PROFESSIONAL RECORDS

The problem of storage is one of the great difficulties of any professional man, and this is particularly true of the Architect, the Solicitor and the Accountant. The Architect's papers are generally large and require special cabinets. Those of a Solicitor will (apart from trusts) frequently embrace many individual transactions but there may be long intervals, sometimes years, between the occasions when a client seeks advice on a particular subject.

An Accountant is in a somewhat easier position because his work tends to be recurring in nature and therefore continuous in the sense that filing can be progressive. There are, of course, exceptions such as special investigations and the like, where papers come into existence and will require special and individual disposal.

Apart from the usual working papers, (i.e. permanent papers such as system inquiry notes (semi-permanent), progressive comparative figure folders, audit notebooks progressive taxation computations, audit programmes, statistical test notes, etc and non-permanent papers such as the annual working papers) there are correspondences files, often divided between accountancy (including management accounting), audit and taxation.

All these add up to a mass of papers that may cause real difficulty to the Practicing Accountant who has to decide the twin questions: (a) what should be kept? and (b) for how long? In addition there is the problem as to the best method of storing documents.

It has been established in law that an Accountant's audit working papers are his own property, for in this work he is acting as principal. So far, as taxation work is concerned, he acts as agent for his client. Different points will therefore arise in considering the two types of records.



## 1. **Audit Working Papers**

Let us assume at the outset that the Accountant's working papers are of excellent technical quality, and that they reflect the advice of the statements on auditing principles. This being so, these papers will have great value if ever the quality of the Accountant's work is brought into question in Court. They will also be of very real use whenever a business is being investigated for valuation in connection with (a) purchase, sale or amalgamation; (b) goodwill; (c) Capital transfer tax; or (d) prospectuses.

For these reasons, papers should be kept for at least ten (10) years, this being sufficient to cover the period required by most stock exchanges (the Company and a Allied Matters Act, requires a minimum of five years), as well as the six years during which actions for professional negligence could arise.

Ten years, however, may for some purposes be less than adequate. Ledger records for example, depreciate on a reducing basis, then in the absence of a plant register, the working papers relating to plant and machinery could be required for a longer time almost indefinitely in the case of some items. Yet, even here there is a limit of practicality and a time when the figure would become non-material, were it not for taxation, and the need to have a record for capital gains tax purposes of chargeable assets of all types, and their date of purchase and cost.

In a sense, therefore, Capital Gains Tax has altered the case completely. What it has done in fact is to make it essential that proper ledger records are kept not just for the company client (in which case the Companies Act prescribes the keeping of 'proper books'), but for all clients with chargeable assets. It would be nice to think this would be done by clients themselves - experience teaches us that this is unlikely. However, the ledger for a number of years may be a lot easier to store rather than a successive set of working papers.

Yet, if the ledgers are kept by the client and are destroyed by fire, a record in one's own office is also useful (though not essential). After ten years therefore, the Accountant may feel able to select important schedules for a longer retention and discard the bulk of the papers.

In connection with winding up of business, it is of course possible to obtain the authority of the final meeting for the destruction of the documents and books. However, audit working papers being the property of the Accountant he may feel that he wishes to retain them for a time.

## **2. Storage Accommodation**

Wherever possible, important working papers will be kept as long as space can be found for them. Storage accommodation outside city centers can usually be found at rents lower than basic office rents; and nothing elaborate is needed. It is usually possible for storage to be done in two stages:

- (a) papers relative to the immediate past (which are most likely to be needed) and therefore should be kept close at hand in the Accountant's own office; and
- (b) older papers which can be storage in the out-of-town depository.

It is, however, difficult to define what is important, and it is often impracticable for some Accountants to follow the ideal of keeping papers for ten years simply on account of lack of space. It is therefore suggested that certain papers may be destroyed after five years.

Excluding papers required for capital gains tax purposes, audit working papers fall into two fairly natural divisions:

- (a) those which are important from a verification and valuation viewpoint; and
- (b) those which are kept to facilitate taxation work, management reports, etc. Once the latter have served their purpose it is unlikely that they will be required again and probably they could be sacrificed after three years.

The number of the former could possibly be reduced by removing any sub-schedules which are duplicates of those of earlier years. In fact, considerable saving all rounds

could be effected if some of these schedules were transferred year by year into the current file instead of being written out again when no changes have occurred.

### **3. Systematic Removal**

It is recommended that such weeding out of working papers should be systematic and regular, in other words become part of the official routine, and could perhaps best be carried out at the commencement of the final stages of each year's audit, when the clerk in charge would automatically be trusted with the task of placing before the partner(s) responsible:

- a) working papers which are ten years old either marked for destruction, or with a note of reasons why they should be kept;
- b) working papers which are three years old, with a schedule indicating which of them might be considered for destruction, and why.

It is also suggested that certain of the more 'permanent' files (e.g. audit programmes, extracts from minutes (if kept separately), stock schedules, internal control once a year by the clerk in charge of each audit, or by the office manager in connection with those documents that are in a storage-room under his control. It would be the latter's duty to review the documents in storage room once a year, so that he can make detailed recommendations to a partner on what should be destroyed. It is essential that the storeroom should be kept in an orderly fashion. The papers should be arranged in date or alphabetical order to facilitate reference; and where loose papers are kept in parcels, these should be identified by registered number in a register of contents. A simple way of doing this, is the use of clock room ticket, each parcel having a ticket stuck on it in a prominent position which can be quickly compared with the duplicate number in the index.

### **4. Retention of Papers, A Guide**

A guide for the retention of an Accountant's papers may therefore be summarized as follows:

	Years
<b>DRAFT ACCOUNTS</b> and schedules containing variations from previous or following years	10
<b>TYPED ACCOUNTS</b> and tax computations	20
<b>AUDIT PROGRAMMES</b> , internal control questionnaires, etc.	10
<b>SCHEDULES</b> where no major variations are noted	10
<b>TAX WORKING PAPERS</b>	10
<b>RECORDS FOR CAPITAL GAINS TAX</b>	<b>See Below</b>
<b>SCHEDULES</b> to Statement of Comprehensive Income mainly for tax purpose	10
<b>LIQUIDATION PAPERS</b> where books destroyed at once by permission	10
<b>ANY OTHER DOCUMENTS</b>	10

We are however, left with documents which really belong to clients (strictly, tax working papers should be offered to them before being destroyed), such as vouchers, dividend counter foils, P.A.Y.E. records, etc. After ten years, the client may be asked either to receive them back or specifically consent to their destruction. Again the senior partner in charge must be responsible.

**That records should be kept indefinitely.**

Documents of permanent significance (Memoranda and Articles of Association, Partnership Deeds, clients' private ledgers) must never be thrown away. Ledgers kept for clients of personal accounts, or nominal ledgers need not be preserved for so long, but should be kept for period of six years specially designed for the purpose.

## 5. E-Storage

In spite of the weeding out process on correspondence file, papers, etc. which can be destroyed when businesses are wound up or absorbed. Space for storage purposes often remains a serious problem. Whatever the size of the office, different methods may be required to solve this difficulty. Some of the simplest and best known methods are flash drives, discs, e-mails etc storage systems. If e-storage system is

employed it will be found helpful to arrange documents client by client and in some cases selected (weeded) correspondence may be dealt with along with current and tax working papers relating to the same client.

Because working papers are generally required for reference by audit staff, while correspondence has to be filed by the secretarial staff, it is not always convenient to use the same cabinets for both. For normal current working papers, the simple but effective storage system will be shelves, while for correspondence and typed copies of accounts, suspension or lateral filing either in drawers or cabinets are generally found to be convenient. Whatever system is used, however, simplicity of operation is always an advantage, and if a coding system is employed, one based on an alphabetical sequence is the easiest to use. Whichever method of filing dormant documents is used, a reliable index (e.g. on cards) will be indispensable.

The destruction of confidential documents is by no means easy. There are firms which will collect and pulp letters and papers and sometimes the Accountant's Banker will help out. Obviously, burning is the most effective method, but this is not always possible in these days of smokeless zones, and the cost of destruction may be something which every Practitioner will eventually have to meet himself. The simplest method of preparing documents for waste disposal is, however, a shredding machine which is highly effective though naturally involves expenditure. But this will still be cheaper than hiring accommodation to house unwanted matter.

## **6. Practitioner's Own Records**

Should Practitioners keep their own ledgers, time-sheets, fees journals, pass sheets, etc. for any set time? Once all the partners have signed the annual accounts, there would seem to be little point in retaining other than the private ledger for internal purposes. For protection against claims from clients, however, time-sheets, time ledgers, diaries and fees journals should be kept for ten years.

Some Accountants feel it desirable to keep shorthand notebooks for several years in case vital letters are lost or mislaid; but the increasing use of dictating machines is progressively obviating any purpose this may serve.

It is also important to keep copies of dispatched letters for a period of 10 years. E-dispatched letters could be downloaded anytime the need arises.

## SECTION 8

### THE DUTIES OF AUDITORS AND THEIR RESPONSIBILITIES

#### 1. Shareholders' Reliance on the Auditors' Certificate

It is a feature of the Annual General Meetings of many public companies that the attendance of members holding the equity shareholding, and therefore entitled to attend and vote thereat, is remarkably small provided the Auditor's report on the Statement of Financial Position is unqualified.

This, in itself, shows that the individual shareholder places great reliance on the wordings of the Auditor's Certificate. If (the Auditors Certificate) as read out to the members attending the A.G.M, simply states that in their opinion the Statement of Financial Position and Statement of Comprehensive Income, and, if it is a holding company submitting group account, the group accounts, have been properly prepared in accordance with Company Acts and show a true and fair view of the company's affairs, they are satisfied.

The preparation of the Statement of Financial Position and Statement of Comprehensive Income of the company (as well as, group account where applicable), is the responsibility of the management and those charges with governance of the company, and therefore it is required that the Chief Operating Officer (COO) and Chief Finance Officer (CFO) must sign the Statement of Financial Position on behalf of the Board of Directors. It is usual that the Auditors have carried out a running audit of the company's books and its vouchers, and, having made their notes from time to time and received all the information and explanations they have required, are now in a position to examine the Statement of Financial Position and the Statement of Comprehensive Income, and to report thereon. Thus, if the result of the audit is that the Statement of Financial Position and Statement of Comprehensive Income are found to show a true and fair view of the company's financial position at the end of its trading year, and they report accordingly "To the shareholders" the shareholders must feel that all is well with the company in which they have invested capital. That tells them just as much as they

would find out by going to the A.G.M., because they have received the auditor's report on the state of the company's business affairs, its future prospects and the recommendations as regard dividend (assuming there is one), which will be put to the meeting on a motion that it be declared and made payable. This is ordinary business, so a simple majority of members present and voting is sufficient to pass such a resolution.

Therefore, unless there is special business of which members will also have received notice, or for instance, in a case where the auditors have drawn the attention of members to regarding the Statement of Financial Position in a qualified report, many shareholders may well not undertake the journey to attend the A.G.M., and the attendance may not be large; but so long as there is a quorum in accordance with the Articles, the business before the meeting will be duly conducted, and, unless there is no dividend recommended by the directors, they will receive their dividend warrants in due course.

Going by recent developments, Auditors' reports and certificates are now public properties relied upon by stakeholders; i.e., the shareholders, investing public, tax authorities, banks, suppliers, etc.

## 2. **Appointment of Auditors**

The Articles of a company must include provision for the appointment of an Auditor or Auditors.

The **first Auditors** can be appointed by the directors, subject to the power conferred on them in a general meeting to confirm their appointment or to remove them.

In the case of **subsequent Auditors**, a company must at each Annual General Meeting appoint an Auditor or Auditors, to hold office from the conclusion of the A.G.M. to the conclusion of the following A.G.M. But in practice retiring Auditors continue to hold their appointments indefinitely without any resolution being passed at the A.G.M. unless the unusual circumstances arise that he is not qualified so to act, or of course, if an Auditor gives notice of unwillingness to be re-appointed.



Where at an A.G.M. no Auditor is appointed, or re-appointed, the Registrar of Companies will appoint a person to fill the vacancy. When this arises, the company must give the Registrar of Companies notice within one week.

### **3. Removal of an Auditor (or Auditors)**

This is a most unusual circumstance, but as members of the company have the power appoint an Auditor, so do they have the power to remove an Auditor or to nominate a person other than the retiring Auditor.

Where it does arise, a number of the shareholders (who may have lost confidence in the present Auditor), must give Special Notice to the company of an intention to nominate a person other than the retiring Auditor, or that a retiring Auditor shall not be re-appointed, and the company must give a copy of that Notice to the retiring Auditor, and include particulars of it to the members of the company with the notice convening the A.G.M. The special notice must have been sent to the company not less than 28 days before the meeting, and members would therefore, receive it not less than 21 days before the date of the A.G.M. Where such special notice has been given, and the Auditor makes representations in writing to the company, and requests their notification to members of the company, the company shall, in the notice of the resolution given to members state the fact of the representations having been made, and send a copy of the representations to every member of the company to whom notice of the meeting is sent, and, if not, the Auditor may require the representations to be read out at the meeting.

Though, the notices given to the company is special, the resolution put to the meeting requires only an ordinary one which, in turn, requires only a simple majority, i.e. any number more than half of members present and voting. Thus, if the motion goes against the Auditor, it is final, and there the matter will rest.

### **4. Remuneration of the Auditor**

The remuneration of an Auditor is fixed by the company at the A.G.M. If he has been appointed by the directors and his remuneration fixed by them, it must be ratified at

the A.G.M. If an Auditor is appointed by the Registrar of Companies, he will fix his remuneration.

Where it arises that the matter of increasing an Auditor's remuneration is before a general meeting of a company, which is, again, ordinary business, it is usually arranged that one member in the body of the hall proposes the motion and another member, also from the body of the hall seconds it, before the chairman puts it to the vote of the meeting. The reason this is done is that the auditor addresses his report, attached to the Statement of Financial Position, to the shareholders of the company, not just to the directors, though they may, of course, be shareholders, particularly if the Articles contain provision for the directors to hold a shareholding qualification.

## **5. Relationship of the Auditor to a Company and its Members**

Auditors are agents for the shareholders; but the shareholders are not necessarily bound by notice of everything of which notice is given to the Auditors (*Speckman v Evans* (1868)). The relationship between an Auditor and a company is that of professional man and his client; accordingly, the notes made by an Auditor in the course of his audit are his own property, (*Chantrey Martin and Co. v Martin* (1953)), but although confidential, they are not privileged against an order for discovery in proceedings against a third party, (*Ibid*).

The Auditors are not agents of the company, and their certificate on the Statement of Financial Position is not an acknowledgement of the company's indebtedness for the statute of limitation (*Re Tranplanters Holding Company Ltd.*, (1958)).

## **6. Right of Access to books of Account**

Every Auditor has a right of access at all times to the books and accounts and vouchers of the company of which he is the Auditor, and is entitled to require from the officers of the company such information and explanation as he thinks necessary for the performance of the duties as Auditor.

If the Auditor fails to obtain all the information and explanations which, to the best

of his knowledge and belief, are necessary for the purposes of his audit, he must state that fact in his report.

## **7. Right to Attend and be heard at Meetings**

Auditors are entitled to attend any general meeting of the company of which they are Auditor(s) and to receive all notices of, and other communications relating to, any general meeting which any member of the company is entitled to receive, and be heard at any general meeting on any part of the business which concerns them as Auditors.

## **8. Books of Account Which a Company Must Keep**

Section 331 of the Companies and Allied Matters Act 1990 (as amended) requires that:

- a) Every company shall cause to be kept proper books of account with respect to:
  - i) All sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place,
  - ii) All sales and purchases of goods by the company, and
  - iii) The assets and liabilities of the company.
- b) They must be sufficient to give a true and fair view of the state of the company's affairs and to explain its transactions.

Thus, the Act is of most assistance to the Auditor(s) in stating clearly that every company is required to keep proper books of account, by so clearly laying down the headings under which a company's book must be kept.

Further, the courts have made it clear as to what is expected in this respect in cases coming before them, as in *Hinds v Buenos Ayres Grand National Tramways Co. (1906)* where it was held that the accounts should be kept in a manner which prudent business people would adopt.

## 9. Duties and Powers of Auditors (Section 360 of the CAM Act 1990)

The duties of Auditors are:

- a) To make a report to the shareholders
- b) To make themselves acquainted with their duties under the company's Memorandum and Articles of the Companies and Allied Matters Act 1990
- c) To exercise reasonable care.

### a) *The Auditor(s)' Report Section 389 of CAM Act 1990*

The Auditor(s) must make a report to the shareholders on the accounts examined by them, in respect of every Statement of Financial Position and Statement of Comprehensive Income and all group accounts, laid before a company in general meeting assembled, during their tenure of office. That means they must examine the books of account of the company.

### b) *An Acquaintance with the Memorandum & Articles of the Companies and the Companies Acts*

While the law with regard to companies applies equally (except where special classes of companies are concerned), industry and commerce is so complex and varied which is nothing new, it has been the case since companies came into existence- the Articles of companies are, therefore, varied as between one company and another company, so the auditor(s) must scrutinize each company's Articles in order to be familiar with the provisions of each. In fact, he must assume that each set of Articles is different from the next.

*In Re Republic of Bolivia Exploration Syndicate Ltd. (1914); It was held that, "Auditors of a limited company are bound to know and make themselves acquainted with their duties under the Articles of the company whose accounts they are appointed to audit and under the companies Acts for the time being in force; and when it is shown that audited accounts do not show the true financial condition of the company and that damage has*

resulted, the onus is on the Auditors to show that this is not the result of any breach of duty on their part".

c) *Auditor(s)' Duty to Exercise Reasonable Care*

The Auditor must be honest and he must exercise reasonable care. It was decided in *Re London & General Bank (1895)* that "it is no part of an auditor's duty to give advice either to directors or shareholders as to what they ought to do. The auditor's business is to ascertain the true financial position of the company at the time of audit, and his duty is confined to that. He must be honest, that is, he must not certify what he does not believe to be true. And he must take reasonable care and exercise skill before he believes that what he certifies is true". And in *Re Kingson Cotton Mill Co., Ltd. (1896)* it was held that "It is the duty of an Auditor to bring to bear upon the work he has to perform the skill, care and caution which a reasonably competent, careful and cautious Auditor would use ....An Auditor is not bound to be a detective or, ..... to approach his work with suspicion, or with a foregone conclusion that there was something wrong. He is a watchdog, not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest and to rely upon their representations, provided he takes reasonable care." But in *Re Thomas Gerrard & son, Ltd.(1967)*, where the discovery of some altered invoice was held to be sufficient to put the Auditors on enquiry, the Court commented that the standard of reasonable care and skill. In view of the expert evidence led in that case, was more exacting today than that which prevailed in 1896 when the Kingston cotton mill co. case was decided.

In *Re City Equitable Fire Insurance co. (1925)*, where the true financial position of the company was concealed by the chairman from the other directors and the shareholders, the steps taken by the Auditors were held by the court to fall short of the proper measure of care expected of them. And in *Leeds Estate Building and Investment co. vs Shepherd (1887)* the Articles provided that the directors should receive remuneration only if the dividend payable exceeded 5 percent. The manager prepared a delusive Balance Sheet

which enables the directors to declare dividend of over 5 percent, and to pay themselves their remuneration. The Auditor did not look at the Articles or at the books, but he merely accepted the statement of the manager and certified the accounts to be a true copy of those shown in the books of the company. The Court found the Auditor liable.

#### 10. **Securities and Moneys Must Be Seen and Examined**

The Auditor must see all the securities and moneys of the company actually produced to him. He must examine the securities, and so far as the moneys are concerned a physical check of balance, or balances, on hand at the close of business on the last day of the financial year; as well as a certificate from the company's bankers stating the balance or balances at date. The cash book is brought to a balance and reconciliation is written in the cash book, and is duly vouched. In *Re City Equitable Fire Insurance Co.* (1925), it was also held that the Auditor was held not to be justified in accepting a certificate of the company's stockbrokers that they held certain securities of the company; the Auditor should have required production of the securities and examined them, particularly to see that there was no endorsement on them. This requirement also applies to other financial instruments such as bonds, shares etc.

#### 11. **An Auditor is not a Stock-Taker**

It was decided in the case of *Henry Squire (Cash Chemist) Limited. V Ball Baker & Co.* (1911). That it is not part of an Auditor's duty to take stock, and that in the absence of suspicious circumstances, the Auditor is entitled to rely on the certificate of a responsible official. In the earlier case in *Re Kingston Cotton Mill co.* (1896), where overstatement of the company's stock-in-trade arose, it was held that the Auditors were not liable; it was no part of their duty to take stock (though the Court did comment that if the Auditors had added to the value of the previous year the amount spent on stock and deducted the amount received from sales, they would have seen that the valuation (as shown) required explanation.

## **12. As Regards Third Parties**

It was held in the case of *Hedley, Byrne & Co. Ltd. V Heller & Partners Ltd.* (1964) that an Auditor owes a duty to third parties who may be misled by the accounts; therefore clarity is all important.

## **13. Proceedings for Misfeasance**

An Auditor whether he is appointed under the Companies and Allied Matters Act 1990 (which lays down that a company must appoint an Auditor or Auditors to hold office from the conclusion of one A.G.M. to the conclusion of the next, and may be reappointed without any resolution being passed), or in the exceptional circumstances of being formally appointed by the Article of a company, is an "officer" of the company (*R. vs. Shacter* (1960)), and is liable to be proceeded against for misfeasance under the Companies and Allied Matters Act, but an auditor informally appointed is not such an officer.

Any provision, whether contained in any contract with the company or otherwise, or contained in the articles of a company, exempting any person employed by the company as an Auditor, or indemnifying him against, any liability which would attach to him in respect of any negligence, default, breach of trust, of which he may be guilty, in relation to the company, is void. The Court may however, relieve the Auditor or Auditors (whether they are officers of the company or not) if they have acted honestly and reasonably, and ought in all the circumstances, fairly to be excused.

## **14. Statement of Financial Position and Statement of Comprehensive Income are those of the Directors**

The Statement of Financial Position and the Statement of Comprehensive Income to be laid before a company in annual general meeting assembled are those of the Management and those charged with governance. They are, therefore required to have them prepared for submission to the Auditors. Following their examination, this means that the Auditors must have

examined the books and accounts and vouchers of the company prior thereto. The COO and CFO of a public company must sign the Statement of Financial Position on behalf of the Board of Directors, thus the management and those charged with governance are responsible for the contents of the Statement of Financial Position. Where, in the case of a private company, there are only two directors both must sign the Statement of Financial Position.

The Auditors do not sign the Statement of Financial Position; they attach their (signed) certificate to it, or, as it is usually termed, their report to the shareholders. Thus, if the Auditors, having examined the books and accounts and vouchers of the company, and then examined the Statement of Financial Position and Statement of Comprehensive Income, and having received all the information and explanations they may have required, find that the Statement of Financial Position reflects a true and fair statement of the company's financial position on the appropriate date, they will frame their report to the shareholders accordingly; but if they do not, they will qualify their report to bring to the notice of the shareholders by stating in what manner they do not find that the Statement of Financial Position reflect a fair statement of the company's financial position on that date.

As members of the company will have received a copy of the Auditor's report attached to the Statement of Financial Position, the Directors' report, and copies of the Statement of Financial Position and Statement of Comprehensive Income, not less than 21 days before the date of the A.G.M., they are in a position to study these documents and, in due course, be prepared for the matters which will arise in the case of a qualified report by the Auditors. The Auditors will be in attendance, or be represented, because they have the statutory right to receive notice of and attend all general meetings and to be heard at the meeting "on any part of the business which concerns them as Auditors". And it is most probable that the company's Solicitors will also be in attendance, or be represented, to advice on legal matters concerning the company.



But, as it is most usually the case where the Auditors find that the Statement of Financial Position reflects a true and fair view of the company's financial position as on the close of a financial year, the proceedings at the A.G.M., in that respect at least, will be purely formal, and many members, think more of the dividend they are to receive when the directors' recommendations are declared by those members present and voting at the meeting, will take it for granted that there will be, as is general, sufficient members to pass the ordinary resolutions required to conduct ordinary business of the company, and will not make the journey to attend the meeting

#### 15. **Universality of Accounting and Auditing Procedures**

Though the above law and practice refer to accountancy and audit procedure in Nigeria, very much the same type of laws and practices apply to most countries, both in the East and in the West, because the framing of laws tends to be universal on this subject and, further, there are frequent conferences of accountants from many countries, which in itself, promotes the principle of similarity, etc.

The current movement from National Generally Accepted Accounting Principles (GAAP) of various countries that are now converging to meet with International Financial Reporting Standards (IFRS) is a good example of universality of Accounting and Auditing. Members are therefore encouraged to key in to the programmes and procedures.

## SECTION 9

### REPORTS ON ACCOUNTS OF SOLE TRADERS AND PARTNERSHIP

Since the accounts of sole traders and partnership are not normally audited, the Accountant responsible for the preparation cannot express an opinion on the true state of affairs. It is, therefore, necessary that the clients should certify the authenticity of the whole trading transactions at the foot of the Statement of Comprehensive Income. Whilst the Accountant should give a statement as to how the accounts and Statement of Financial Position were prepared, at the foot of the Statement of Financial Position.

#### EXAMPLE OF:

a) **Statement of Comprehensive Income:**

"I/We hereby certify that the foregoing Account contains the whole of my/our trading transactions during the period specified".

-----

b) **Statement of Financial Position:-**

"We have prepared the above Statement of Financial Position with the annexed Statement of Comprehensive Incomes and the relevant notes from the books, invoices and vouchers produced to us and from information and explanations given to us".

XYZ & CO.

CERTIFIED NATIONAL ACCOUNTANTS

## SECTION 10

### PROFESSIONAL FEES

#### Auditing

The Council does not have an officially recognized scale of fees for professional services, but as a general guide, fees should normally be computed by reference to the skill and knowledge required for the work, qualification(s) of the personnel, the seniority of the persons necessary engaged upon it, the time occupied and the nature of the responsibility.

Enhanced fees may be justifiable where the work is of a particularly intricate character or demands priority of attention.

The rates charged will normally be related to the salaries paid to the staff and the relative overhead expenses. In this connection the number of 'chargeable days' should be arrived at after making appropriate allowance for week-ends, annual and public holidays, study leave and possible sickness.

Salaries and overhead expenses must be considered in relation to chargeable days in deciding upon rates which will show a margin of profit appropriate to the responsibility involved.

It should be borne in mind that a wide differential may exist between charging rates in cosmopolitan cities such as Abuja, Lagos, Port Harcourt and other large cities on the one hand, and the smaller provincial cities. It is also recognized that many practitioners have certain clients for whom, whether from personal or charitable motives, they are prepared to undertake work below their normal charging rates.

With the foregoing considerations in mind, the following rates are quoted as an indication of the range of professional charges for work presenting no exceptional characteristics. These are exclusive of traveling and hotel expenses and other reimbursable claims

## 1. AUDITING SERVICES

Charges for audit services would optionally be based on either hourly rate or on turnover.

### OPTION 1

#### HOURLY RATE BASIS

AUDIT PERSONNEL	RATE PER HOUR
Managing/Senior Partner	N30,000.00
Partner	N25,000.00
Manager	N20,000.00
Audit Senior	N15,000.00
Audit Junior	N10,000.00
Practitioner Assistant	N7,000.00
Semi -Junior (AIT)	N5,000.00
Audit Assistant/Junior Staff	N3,000.00

#### Personnel Definition

Managing/Senior Partner	Must possess a practicing certificate of the Association, and should oversee the overall management of the firm.
Partner	Must possess a practicing certificate of the Association and must be in full time practice.
Manager	Must be professionally qualified member of the Association, with at least 6 years post qualification practice office working experience.
Audit Senior	Must be professionally qualified member of the Association, with at least 4 years post qualification practice office working experience.
Audit Junior	Must be professionally qualified member of the Association, with at least 2 years post qualification practice office working experience.

Practitioner Assistant

Must be a professionally qualified member of the Association, currently serving as a practitioner in training.

Semi Junior (AIT)

Must have passed out of the Nigeria College of Accountancy, and serving as Accountant In Training, AIT.

Audit Assistant/Junior Staff

Graduate of Accountancy who has not gone to Nigeria College of Accountancy.

## OPTION II

### TURNOVER BASIS

As earlier mentioned this basis would serve as an alternative to the time rate basis thus leaving the clients with the option of choice as to which of the two rates would be applicable

TURNOVER	% Charge Rate	Cumulative Turnover	Fees (N)
N	N	N	
First 1m	5%	1m	50,000
Next 4m	4%	5m	210,000
Next 5m	3%	10m	360,000
Next 10m	2.5%	20m	610,000
Next 30m	2%	50m	1,210,000
Next 50m	1.5%	100m	1,960,000
Next 100m	1%	200m	2,960,000
Next 300m	0.75%	500m	5,210,000
Next 500m	0.5%	1Billion	7,710,000
Above 1 Billion	Negotiable		

No fees may be less than =N=50,000.00

## 2. TAXATION SERVICES

Taxation services may be provided based on the same classification of personnel and rates charges as applicable to audit assignments.

### 3. CHARGES FOR OTHER SERVICES

The under-listed fees may be applicable to the relevant services provided by practicing members of the Association

(a) Feasibility Report writing for projects

<b>Project worth</b>	<b>% Charger Rate</b>
First 5m	10%
Next 15m	7.5%
Next 30m	5%
Above 50m	3.5%

(b) Management Consultancy.

Minimum charge of N50,000 per proposal (as per terms of the engagement)

(c) Receivership.

20% of the amount realized

(d) Debt Recovery.

20% of the total amount recovered plus negotiated engagement fee

(e) Liquidation.

20% of the amount realized plus negotiated engagement fee

(f) Loan Sourcing

5% of the negotiated loan subject to a minimum of N25,000

(g) Debt Reduction

20% of the saving achieved plus negotiated engagement fee.

(h) Restructuring of Corporate Organization 0.5% of the turnover before reorganization.

The above list is not exhaustive

### 4. MINIMUM SCALE FOR MISCELLANEOUS SERVICES

Miscellaneous services may include investigations, preparation of Business Plans, Accounting Service, Company Secretarial Functions, Insolvency Management, Funds Sourcing, Corporate Management/Restructuring Personnel Recruitment,

## Reporting Accountants' Services, Public Sector Services, information & Communication Technology Consulting

The recommended basis of charge for the services is **hourly rates**. However, the hourly rates should not be the same as those for Audit & Assurance service, as the required resources are expected to be different. Special processes and expert personnel may be required for the assignment

Accordingly, the hourly rates should reflect a premium for these additional complex features. Again a risk assessment is required. The premium should be a minimum of 100% of the level of rate suggested in paragraph 1.1 above.

The above fees discussed are exclusive of incidental and re-imbursable expenses. The auditee is expected to settle all the incidental and re-imbursable expenses arising from the assignment when duly presented by the firm.

### 5. GENERAL

#### **Value-Added-Tax**

Fees are exclusive of Value-Added-Tax. An engagement letter should clearly state this term

#### **With-Holding Tax**

Practitioners' fees would suffer a deduction of With-holding tax. This is in accordance with the Nigeria Tax Laws. To ensure that Practitioners benefit for the deduction, it is tax efficient to request (from their clients) that the financial instrument for the with-holding tax be made payable to the State or Federal Tax Authority. Therefore the Practitioner would obtain the instrument for the client and process the payment. On obtaining the receipt for the payment, the receipt is the property of the Practitioner (it is the practitioner's tax credit). For completeness, a copy of the receipt should be forwarded to the client.

## APPENDIX 1

### SPECIMEN LETTER OF ENGAGEMENT

#### For a Company Client

To audit the Accounts and to undertake accounting and tax work

This Appendix provides an example of the form which a letter of engagement for a company client might take. It is a guide in conjunction with the general considerations outlined in the Statement and should be varied according to individual requirements and circumstances.

To the Chairman or Managing Director or Secretary (as appropriate) of A.B Limited.

Following our appointment as Auditors of the company and in confirmation of our recent interview with..... (named official(s) of the company).... We set out below our responsibilities as Auditors and our understanding of the further services you require us to perform

#### 1. AUDITING

- (a) Our function as Auditors under the Companies and Allied Matters Act (CAMA) cap c20 LFN 2004 is to examine the accounts presented to us by the Directors. The Directors are responsible for the preparation of the accounts, and for the maintenance of the accounting records of the Company, Any Accounting services we provide are distinct from our function as auditors.
- (b) We shall, as required by law, report to the members whether in our opinion the accounts of the company which we have audited give a true and fair view of the state of the company's affairs at the date of the Statement of Financial Position, and of the profit or loss for the year ended on that date, and whether those accounts comply with the Companies and Allied Matters Act.
- (c) in arriving at our opinion we are required by law to consider the following matters but only to report on any in respect of which we are not satisfied:



- i. whether proper books of account have been kept by the company and proper returns adequate for our audit have been received from branches not visited by us;
  - ii. whether the company's Statement of Financial Position and Statement of Comprehensive Income are in agreement with the books of account and returns;
  - iii. whether we have obtained all the information and explanations which we think necessary for the purposes of our audit.
- (d) in accordance with normal practice, our audit will be planned primarily to express our professional opinion. It should not be relied on to disclose defalcations or other irregularities, but their disclosure, if they exist, may result from the audit tests we undertake
- (e) The work we shall do to enable us to form our opinion, referred to in (c), will include-
- (i) keeping under review the company's system of book-keeping, accounting;
  - (ii) efficacy or otherwise of the internal control; and
  - (iii) making such tests and enquiries as we consider necessary for the purposes of our audit.

Those tests will inter alia apply to-

- (i) day to day operations of the business; and
- (ii) the verification of assets and liabilities.

But their nature and extent will vary according to our assessment of the company's system of internal control and may cover all aspects of the business, including attendance to observe your stocktaking procedures.

We shall report to the directors any material weaknesses in or observations on the company's system which come to our notice and which we think should be brought to their attention.

## 2. TAXATION

*(with appropriate variations)*

You have authorized us to act on your behalf in the preparation of the company's tax computations and their submission to and agreement with the Federal Inland Revenue Service. Your staff will deal with all matters required by statute to be completed by officials of the Company e.g.

- Pay As You Earn (PAYE)
- Value Added Tax (VAT)
- Income tax documents

But we shall be pleased to advice on any of these or other taxation matters including the training of your staff if so requested.

## 3. OTHER SERVICES

*(with appropriate variations)*

We shall be pleased to provide, if required, other Services such as:

- (a) Accountants' reports in support of returns or claims, e.g claims for investment grants:
- (b) Assistance with secretarial service in completing statutory documents (e.g annual returns), or in acting as company registrars;
- (c) Advice on financial matters
- (d) Management Accounting services, including such matters as a review of the company's system of accounting and the installation of a budgetary control system for management
- (e) Reports for special purposes e.g for acquisition of other businesses, merger or reorganizations and investigations into special aspects of the business

#### **4. FEES**

Our fees are based upon the degree of responsibility and skill involved and the time necessarily occupied on the work. Each class of service rendered may be charged separately

We shall be grateful if you kindly acknowledge receipt of this letter. If the contents are not in accordance with your understanding of our agreement, we shall be pleased to receive your further observations and to give you any further information you require.

#### **SPECIMEN LETTER OF ENGAGEMENT**

##### **For a Sole Trader, Partnership or Unincorporated Entity**

This Appendix provides an example of the form which a letter of engagement for a sole trader, partnership or unincorporated entity might take. It is for as a guide in conjunction with the general considerations outlined in the Statement and should be varied according to individual requirements and circumstances.

To.....

In confirmation of our recent interview with..... (named official(s) of the company).... We set out below our responsibilities as Auditors and our understanding of the further services you require us to perform.

#### **1. AUDIT**

(If the clients require any audit work this will have to be specifically agreed, importing as appropriate the matters mentioned in paragraphs 2 and 8 of the Statement)

## 2. ACCOUNTING

- (a) You require us to prepare annual accounts for your consideration and approval. While we shall make such tests of the records and such further enquiries as we consider necessary to enable us to prepare these accounts, we shall not, unless specifically instructed by you in writing, audit them in the sense required by statute for companies.
- (b) We shall report with such variations as we consider necessary that we have prepared, without undertaking an audit, the accounts from the accounting records presented to us and from the information and explanations given to us and that are in accordance therewith. We shall also report any material weaknesses in your accounting system which our tests reveal.
- (c) Our work should not be relied on to disclose defalcations or other irregularities, but their disclosure, if they exist, may well result from the tests we undertake. If an investigation is required specifically to discover defalcation or irregularities this can be separately undertaken on request
- (d) You also require us to assist you with certain accounting services. You have agreed that your staff will be responsible for:-
  - i keeping the records of receipts and payments
  - ii reconciling the balances monthly with the bank statements
  - iii keeping posted and balanced the purchases and sales ledger
  - iv preparing a detailed list of ledger balances
  - v preparing details of the annual stock-taking suitably priced and extended

We have agreed-

- (1) to complete the posting to the nominal ledger
- (2) to prepare draft accounts for your consideration

## 3. TAXATION

*(with appropriate variations)*

You have authorized us to act on your behalf in the preparation of (the firm's)

taxations computations and their submission to and agreement with the Federal Inland Revenue, subject to the approval and signature of the tax return by yourself. Your staff will deal with all matters connected with Pay As You Earn (PAYE) and Value Added Tax (VAT), but we shall be pleased to advice on any of these or other taxation matters if so requested.

#### 4. **OTHER SERVICES**

*(with appropriate variations)*

We shall be pleased to provide, if required, other Services such as:

- (f) Accountants' reports in support of returns or claims, e.g claims for investment grants:
- (g) Assistance with secretarial service in completing statutory documents (e.g annual returns), or in acting as company registrars;
- (h) Advice on financial matters
- (i) Management Accounting services, including such matters as a review of the company's system of accounting and the installation of a budgetary control system for management
- (j) Reports for special purposes e.g for acquisition of other businesses, merger or reorganizations and investigations into special aspects of the business

#### 5. **FEES**

Our fees are based upon the degree of responsibility and skill involved and the time necessarily occupied on the work. Each class of service rendered may be charged separately.

We shall be grateful if you kindly acknowledge receipt of this letter. If the contents are not in accordance with your understanding of our agreement, we shall be pleased to receive your further observations and to give you any further information you require.

**APPENDIX 2**  
**PRACTITIONER ASSISTANTS' PRACTICAL**  
**TRAINING AGREEMENT**

**PRACTITIONER ASSISTANT'S INFORMATION**



Name.....Sex:.....

Membership No:.....

Address:.....

Sponsorship:.....

Previous Employments (Position Held with Dates).....

.....

.....

Telephone Nos:.....E-mail.....

Period of Employment:.....

Training Option: Full-Time  Part Time  (Please Tick)

**FIRM'S INFORMATION**

1.

2. Partners (i).....Practicing Cert. No:.....

(ii).....Practicing Cert. No:.....

(iii).....Practicing Cert. No:.....

3.

4. No of branches with addresses

**ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA**  
(Founded in 1979 and Chartered by Decree No. 76 of 1993 (CAP A26 LFN 2004))  
250 Herbert Macaulay, P.M.B. 1011 YABA, LAGOS.  
Websites: www.anan.org.ng; www.ananportal.org  
e-mail: info@anan.org.ng  
Tel: 01-7642100, 7900926, 07038147508

**PRACTITIONER ASSISTANTS'  
PRACTICAL TRAINING AGREEMENT**

BETWEEN

....., Practising Licence No.....  
*Certified National Accountants*

AND

.....  
*Practitioner Assistant*  
with  
*Certificate of Membership*

No:..... Dated.....

Tel:..... E-mail:.....

**TERMS OF PRACTICAL TRAINING**  
*(Period of Training)*

Commencement Date:.....

Completion Date:.....

**For official use**

Registration No:.....

Date:.....

Note: 2 copies to be completed and forwarded to Secretariat.  
One to be retained in member's file in the Secretariat and the second  
copy sent back to his principal.

PRACTICAL TRAINING AGREEMENT made this ..... day of .....  
..... in the year two thousand and ..... BETWEEN

.....  
of.....  
Certified National Accountants (hereinafter called Principal) of the one part and  
.....  
of.....  
in the.....  
(hereinafter called 'the Practitioner Assistant) of the other part.

**WHEREAS:**

The Practitioner Assistant has been admitted as a member of the Association of National Accountants of Nigeria (hereinafter referred to as the Association') by Certificate No.....dated the .....day of .....year two thousand and .....and the Principal is a Member of the Association in practice as a Certified National Accountants in Nigeria and such practice is his main occupation.

**NOW THIS INDENTURE WITNESSETH:**

1. THE PRACTITIONER ASSISTANT places and binds himself to the Principal to serve in his firm from the date hereof for the term of .....thence next ensuing subjects as provided in clause 2 here of
2. THE PRACTITIONER ASSISTANT hereby covenants with the Principal as follows:
  - (i) that he will for the said term faithfully and diligently serve the Principal as his Assistant in the profession of Certified National Accountant such service to be in the office of the Principal or wherever in Nigeria and Practitioner Assistant may be directed by the Principal on his business of Certified National Accountant.
  - (ii) that he will not at anytime during said term, cancel, obliterate, spoil,



destroy, waste, embezzle, spend or make away with any of the books, papers, writings, moneys, stamps or other property of the Principal or his partner or partners or of any of his clients which shall be deposited in the hands of the Practitioner Assistant or entrusted to his custody or possession or to the care custody or possession of the Principal or his partner or partners and shall not without instructions, so to do, make copies of any book or papers belonging to or in the custody of the Principal or of his partner or partners.

- (iii) that he will at all times keep secret the affairs of the Principal or his partner or partners and all and every of them and of his and their clients and shall not divulge the names of such clients.
- (iv) that at all times during the said term he will conduct himself with all due diligence honesty, and propriety and will readily and cheerfully obey and execute the lawful and reasonable command of the principal.
- (v) that he will not depart or absent himself from the service of the principal at any time during the said term without his consent first obtained.
- (vi) that in case he shall act contrary to the foregoing covenants or if the Principal or his partner or partners or all or any of them shall suffer any loss, damage of prejudice by the misbehavior, neglect or improper conduct of the Practitioner Assistant, the Practitioner Assistant shall indemnify the Principal or his partner or partners and all or any of them therefrom and make good and reimburse to the Principal or his partner or partners and all or any of them the amount or value thereof.
- (vii) that within a period of three months after the commencement of his service under these presents he will become a member of the local branch of the Association and shall maintain membership of such branch throughout his period of service under this training agreement.
- (viii) that the Principal shall have the right to ask for report relating to the

Practitioner Assistant form the appropriate local branch of the Association.

- (ix) that he will not , during the said term, practise as a certified accountant or engage in any other business or occupation except in so far as he may be permitted so to do by the Principal and by the express permission granted by the Council of the Association whose discretion shall be absolute.
3. IN CONSIDERATION of the premises, the Principal covenants with Practitioner Assistant as follows:
- (i) that he will accept and take the Practitioner Assistant as his Practitioner Assistant during the said term.
- (ii) that to the best of his ability and power he will either personally or through his partner or partners or his senior Assistant engage the Practitioner Assistant on such work and afford him such opportunities and experience as are necessary for the purpose of enabling the Practitioner Assistant to acquire the art and knowledge of a Public Accountant in practice as a Certified National Accountant.
- (iii) that his professional practice as Certified Accountant is his main occupation and is suitable for the purpose of enabling him to perform the last mentioned covenant.
- (iv) that he will allow the Practitioner Assistant reasonable leave for attendance at seminars and workshops and branch meetings.
- (v) that if the Practitioner Assistant shall have well and faithfully served his said intended practical training the Principal will give the certificate required by the Council of the Association for the purpose of his being admitted as practicing member of the Association.

4. PROVIDED ALWAYS AND IT IS HEREBY EXPRESSLY AGREED AND DECLARED by and between the parties hereto:

- (i) that if during the said the Practitioner Assistant shall be incapacitated by illness for a period or periods amounting in any one year of the said term to a total of six months or shall be absent without leave otherwise than by reason of illness for a period of one month the Principal shall be entitled to discharge the Practitioner Assistant from service hereunder.
- (ii) that these presents shall be subject to the provisions of the Degree and Regulations and Rules of the Association which may from time to time be in force.

IN WITNESS whereof the said parties to these presents have hereunto set their hands and seals the day and year first above written

SIGNED SEALED AND DELIVERED by the Principal.

.....  
in the presence of.....  
(Witness):.....  
Address:.....  
.....

SIGNED SEALED AND DELIVERED by the Practitioner Assistant:

.....  
in the presence of.....  
(Witness):.....  
Address:.....  
.....

NOTE: The Association of National Accountants of Nigeria is not in support of payment of premium by a Practitioner Assistant to a Principal.

ASSOCIATION OF NATIONAL ACCOUNTANTS  
OF NIGERIA

*(Founded in 1979, Chartered by Act No. 76 of 1993 Now CAP 26 LFN, 2004)*  
250, Herbert Macaulay Street, P.M.B.1011, Yaba, Lagos.

APPLICATION FOR PRACTICING CERTIFICATE

*(TO BE COMPLETED IN BLOCK LETTERS)*

**SECTION A**

1. NAME OF APPLICANT:.....
2. MEMBERSHIP NUMBER:.....
3. DATE ADMITTED:.....
4. ADDRESS:.....  
.....
5. SEX:.....

**SECTION B**

**PRACTICAL EXPERIENCE**

**(TO BE COMPLETED BY THE TRAINER)**

**1. DETAILS OF ACCOUNTING PRACTICAL EXPERIENCE**

- i) .....
- ii) .....
- iii) .....

iv) .....

**2. DETAILS OF AUDITING / INVESTIGATION PRACTICAL EXPERIENCE**

i) .....

ii) .....

iii) .....

iv) .....

**3. DETAILS OF TAXATION PRACTICAL EXPERIENCE**

i) .....

ii) .....

iii) .....

iv) .....

**4. DETAILS OF MANAGEMENT / CONSULTING PRACTICAL EXPERIENCE**

i) .....

ii) .....

iii) .....

iv) .....

**5. DETAILS OF CORPORATE AFFAIRS AND SECRETARIAL SERVICES PRACTICAL EXPERIENCE**

i) .....

ii) .....

iii) .....

iv) .....

**6. PARTICULARS OF TRAINER**

i) NAME OF THE FIRM TRAINED:.....

ii) PRACTISING LICENSE NO .....

iii) FULL NAME OF MANAGING PARTNER .....

- iv) PRACTISING CERTIFICATE No.:..... DATE:.....
- v) PERIOD OF THE TRAINING:.....
- vi) SIGNATURE:..... DATE:.....
- vii) OFFICIAL SEAL:.....

**SECTION C**

1. PROPOSED BUSINESS NAME: .....
2. HOW LONG DO YOU WISH TO REMAIN WITH THE PRESENT EMPLOYER ?.....
3. PROPOSED BUSINESS ADDRESS:.....
4. PROPOSED DATE OF COMMENCEMENT OF PRACTICE:.....
5. (i) ARE YOU IN ANY OTHER GAINFUL EMPLOYMENT?  
 YES  NO
- (ii) IF YES, GIVE NAME / ADDRESS OF YOUR EMPLOYER:.....  
 .....  
 .....  
 .....

**SECTION D**

**DECLARATION**

I, .....hereby certify that the foregoing particulars are to the best of my knowledge and belief correct. I undertake to comply with the Association's Rules / Regulations governing the issuing of Practising Certificates and I forward herewith the sum of N:.....being the application fee. I

shall notify the Registrar/Chief Executive about any change in my practice:

Signature:.....

Date:.....

**SECTION E:**

**FOR OFFICE USE ONLY**

**VERIFICATION**

	YES	NO
1. Practitioners Assistant Scheme Form Completed and Submitted	<input type="checkbox"/>	<input type="checkbox"/>
2. Attendance at MCPD (for immediate past 3 years)	<input type="checkbox"/>	<input type="checkbox"/>
3. Annual National Conference (for past 2 years)	<input type="checkbox"/>	<input type="checkbox"/>
4. Payment of Dues up to date (the Principal & Applicant)	<input type="checkbox"/>	<input type="checkbox"/>
5. Payment of the applicant trainer's dues up to date	<input type="checkbox"/>	<input type="checkbox"/>
6. Proper completion of the form	<input type="checkbox"/>	<input type="checkbox"/>

Verified by Secretary, Practicing & Quality Control: Name:.....

Signature:..... Date:.....

Recommendation of the Practicing and Quality Control Committee:

.....  
.....  
.....  
.....

Chairman's Signature:..... Date:.....

TO BE COMPLETED BY THE REGISTRAR/CHIEF EXECUTIVE

Date of Council Approval:.....

Certificate Issued No.:..... Date: .....

Registrar's Signature and Date:.....



ASSOCIATION OF NATIONAL ACCOUNTANTS  
OF NIGERIA

*(Founded in 1979, Chartered by Act No. 76 of 1993 Now CAP 26 LFN, 2004)*  
250, Herbert Macaulay Street, P.M.B.1011, Yaba, Lagos.

APPLICATION FOR PRACTICING LICENCE

*(TO BE COMPLETED IN BLOCK LETTERS)*

**1. PRACTICING DETAILS**

A. Proposed name of firm (Minimum of two names) synergize with CAC data control

Option A \_\_\_\_\_

Option B \_\_\_\_\_

Option C \_\_\_\_\_

B. Proposed date of Commencement of Practice

\_\_\_\_\_

C. I/We intend to practise as (tick as appropriate)

A Sole Practitioner

A Partner (in a partnership)

## 2. PERSONAL INFORMATION

Full name of Sponsor/Contact Partner: \_\_\_\_\_ Title: \_\_\_\_\_  
Membership Number: \_\_\_\_\_ Date Admitted: \_\_\_\_\_  
Practicing Certificate No. \_\_\_\_\_ Date \_\_\_\_\_  
GSM No.: \_\_\_\_\_ E: mail: \_\_\_\_\_  
Mailing address: \_\_\_\_\_  
\_\_\_\_\_

## 3. PARTICULARS OF PARTNERS

### SUMMARY OF EMPLOYMENT, EXPERIENCE RECORD AND AREA OF SPECILISATION

a). Name and Address of Partner: \_\_\_\_\_  
Membership No. \_\_\_\_\_ Date: \_\_\_\_\_  
Practicing Certificate No. \_\_\_\_\_ Date: \_\_\_\_\_  
Name and Address of the present Employer \_\_\_\_\_  
\_\_\_\_\_

Nature of employer's business: \_\_\_\_\_  
Job title: \_\_\_\_\_  
(from): \_\_\_\_\_ (to): \_\_\_\_\_  
Area of Responsibility: \_\_\_\_\_  
\_\_\_\_\_

b). Name and Address of Partner: \_\_\_\_\_  
Membership No. \_\_\_\_\_ Date \_\_\_\_\_  
Practicing certificate No. \_\_\_\_\_ Date \_\_\_\_\_  
Name and the Address of the present Employer \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Nature of Employer's Business: \_\_\_\_\_  
Job title: \_\_\_\_\_  
(from): \_\_\_\_\_ (to): \_\_\_\_\_  
Area of Responsibility: \_\_\_\_\_

(Attach particulars of all other partners if they are more than two)

#### 4. EXPERIENCE RECORD

Please outline below how your experience(s) has prepared you for self-employment, providing public practice services directly to the public:

---

---

---

---

#### 5. PROFESSIONAL INDEMNITY INSURANCE

i) I/We detail below the name of my/our insurer and policy number

Insurance Company: \_\_\_\_\_

Policy Number: \_\_\_\_\_

ii) I/We enclose a quotation document as evidence that I/We have applied for a policy and undertake to provide details of my/our policy number to ANAN once it has been confirmed.

Insurance Company: \_\_\_\_\_

**6. CONTINUITY OF PRACTICE**

I have made arrangements for the continuity of my practice in the event of my death or incapacity in the partnership agreement, or with the following firm of qualified Certified Accountants licensed by ANAN.

Name of firm: \_\_\_\_\_

Address: \_\_\_\_\_

Town: \_\_\_\_\_ State: \_\_\_\_\_

## 7. DECLARATION

I/We solemnly declared as follows:

That we shall notify the Association immediately there is occurrence of any change in information supplied in support of my/our application or change in the circumstances of any event which may cast doubt on the validity of my application on the continuance of the condition.

I/We undertake to co-operate fully and at all times with the Practising and Quality Control Committee ANAN Quality Assurance Inspectors, and ANAN Quality Assurance Review Team to supply all such information and evidence as are necessary to enable the Association discharge its monitoring and quality assurance exercise efficiently.

I/We undertake to regularly attend programmes of the Association particularly MCPD, MPPF and Practitioners Interactive Sections at National and State Branch levels.

That the for going particulars are, to the best of my/our knowledge.

SIGN \_\_\_\_\_ DATE \_\_\_\_\_

SIGN \_\_\_\_\_ DATE \_\_\_\_\_

## 8. AFFIRMATIONS(FOR OFFICE USE ONLY)

		COMMENT	SIGNATURE
1	Evidence of registration of approved name of the firm by the Corporate Affairs Commission		
2	Evidence of Commitment to undertake		

3.	Professional Indemnity Insurance Cover Evidence of Compliance with the minimum requirements for Infrastructure, personnel, equipment, etc		
4	Evidence of arrangement for Continuity of Practice		

**9. RECOMMENDATION OF THE PRACTICING & QUALITY CONTROL COMMITTEE:**

Chairman Signature \_\_\_\_\_ Date \_\_\_\_\_  
 COUNCIL DECISION (To be completed by the Registrar Chief Executive)  
 Date of Council Approval \_\_\_\_\_  
 Practicing licence No allotted \_\_\_\_\_  
 Registrar Signature \_\_\_\_\_ Date \_\_\_\_\_

ASSOCIATION OF NATIONAL ACCOUNTANTS  
OF NIGERIA

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250, Herbert Macaulay Street, P.M.B.1011, Yaba, Lagos.

APPLICATION FOR RENEWAL OF PRACTICING LICENCE  
(TO BE COMPLETED IN BLOCK LETTERS)

1. Name of Firm: \_\_\_\_\_

2. Name of Contact Partner: \_\_\_\_\_ Tel No.: \_\_\_\_\_

3. Category of Firm (Tick as appropriate)

Sole Practitioner

Partnership 2 - 3 Partners

4- 6 Partners

7 - 10 Partners

11 Partners & Above

4 Practice Licence No. \_\_\_\_\_ Date of first issue: \_\_\_\_\_

5. Practice Seal No. \_\_\_\_\_

6. Practicing Details

(a) Date of Commencement of Practice \_\_\_\_\_

(b) **Name of Partners**                      **Mem. No.**                      **Practice Certificate No.**

i. \_\_\_\_\_

- ii \_\_\_\_\_
- iii \_\_\_\_\_
- iv \_\_\_\_\_

**7. OFFICES**

(a) Head Office

Address: \_\_\_\_\_

E-mail: \_\_\_\_\_

Tel. No.: \_\_\_\_\_

(b) Other Offices

(i) Address: \_\_\_\_\_

E-mail: \_\_\_\_\_

Tel. No.: \_\_\_\_\_

(ii) Address: \_\_\_\_\_

E-mail: \_\_\_\_\_

Tel. No.: \_\_\_\_\_

(iii) Address: \_\_\_\_\_

E-mail: \_\_\_\_\_

Tel. No.: \_\_\_\_\_

**8. MONITORING AND QUALITY ASSURANCE**

I/We confirm my/our participation in all MCPD and MPPF programmes since the date of the last issuance/renewal of license.

I/We confirm that there is/are no pending litigations in respect of my/our professional practice that I/We had not disclose to the Association.



I/We confirm that all enquiries/queries from the Secretariat, Practicing and Quality Control Committee ANAN Quality Assurance Inspectors and Quality Assurance Review Team have been addressed and cleared.

I/We affirm that I/We shall continue to co-operate with the Practicing and Quality Control Committee ANAN Quality Assurance Inspectors and Peer Review by supplying all the information and evidences required by them from time to time.

I/We confirm that we are registered and have complied with the requirements of Special Control Unit Against Money Laundering (SCUML) on Anti Money Laundering & Combating Financing Terrorism. AML/CFT

DECLARATION (To be completed by the Managing Partner)

I/We confirm that all the information provided above are true:

Name \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

## 9. AFFIRMATIONS

	COMMENT	SIGNATURE
1. Evidence of Participation at MCPD, MPFF, etc		
2. Evidence of no pending litigation not disclosed to the Association		

3. Evidence of Clearance from enquiries and queries from the Secretariat and Practicing and Quality Control Committee		
4. Evidence of co-operation with Quality Assurance Review Team.		
5. Evidence of registration of SCUML		

**RECOMMENDATION OF THE PRACTICING & QUALITY CONTROL COMMITTEE**

Chairman's Signature \_\_\_\_\_ Date \_\_\_\_\_

**DETAILS OF APPROVAL**

Date of Approval \_\_\_\_\_

Registrar's Signature \_\_\_\_\_ Date \_\_\_\_\_

ASSOCIATION OF NATIONAL ACCOUNTANTS  
OF NIGERIA

*(Founded in 1979, Chartered by Act No. 76 of 1993 Now CAP 26 LFN, 2004)*  
250, Herbert Macaulay Street, P.M.B.1011, Yaba, Lagos.

APPLICATION FOR CHANGE OF NAME/STATUS

*(TO BE COMPLETED IN BLOCK LETTERS)*

1. Current Name of Firm: \_\_\_\_\_
2. Contact Partner: \_\_\_\_\_ Tel. No.: \_\_\_\_\_
3. Practice Licence No.: \_\_\_\_\_ Seal No.: \_\_\_\_\_
4. Proposed Name \_\_\_\_\_

5. Details of the proposed Change:

**(a) Reason(s) for the Proposed Change**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**(b) Change of Name/Status with change in the number of Partners**

**(i) Particulars of Present Partners:**

S/NO	NAME	MEM NO	PRACTICE CERT. NO.	SIGNATURE
i				
ii				
iii				
iv				

**(ii) Particulars of incoming Partners**

S/NO	NAME	MEM NO	PRACTICE CERT. NO.	SIGNATURE
i				
ii				
iii				

**(iii) Particulars of outgoing Partners**

S/NO	NAME	MEM NO	PRACTICE CERT. NO.	SIGNATURE
i				
ii				
iii				
iv				

(c). **Change of Name due to Local or Foreign Affiliation:**  
**(I) Particulars of existing Partners**

S/NO	NAME	MEM NO	PRACTICE CERT. NO.	SIGNATURE
i				
ii				
iii				
iv				

(ii) **Particulars of the Affiliating Firm:**

(1) Name of the Firm: \_\_\_\_\_

(2) Professional Body of the Firm: \_\_\_\_\_

(3) Principal Partners of the Firm: \_\_\_\_\_

S/NO	NAMES OF PARTNERS	MEM NO. OF PROFESSIONAL BODY	YEAR OF AUTHORITY TO PRACTICE
i			
ii			
iii			
iv			

**(iii) Change of Name/Status due to Merger**  
**Particulars of existing Partners:**

S/NO	NAME	MEM NO	PRACTICE CERT. NO.	SIGNATURE
i				
ii				
iii				
iv				

Particulars of the Merging Firm:

Name \_\_\_\_\_

Practice Licence No.: \_\_\_\_\_

Date of Issue/Renewal: \_\_\_\_\_

### Particulars of the Partners of the Merging Firm:

S/NO	NAME	MEM NO	PRACTICE CERT. NO.	SIGNATURE
i				
ii				
iii				
iv				

### 6. DECLARATION:

We solemnly declare as follows:

That we shall notify the Association immediately there is occurrence of any change in information supplied in support of our application or change in the circumstances of any event which may cast doubt on the validity of our application on the continuance of the condition.

We undertake to co-operate fully and at all times with the Practicing and Quality Control *Committee and Quality Assurance Review Team* of the Association to supply all such information and evidences as are necessary to enable the Association discharge its monitoring and quality assurance exercise efficiently.

We undertake to regularly attend programmes of the Association particularly MCPD, MPPF and Practitioners Interactive Sections at national and State Branch levels.

Name and signatures of Principal Partners of the merging firms

(Representing (Name of the Firm) \_\_\_\_\_

Name of Principal Partner \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

(Representing Name of Firm) \_\_\_\_\_

Name of Principal Partner \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

## 7. AFFIRMATIONS

### Name of Firm

		COMMENT	SIGNATURE
1	Evidence of Participation at MCPD, MPFF, etc		
2	Evidence of no pending litigation not disclosed to the Association		
3.	Evidence of Clearance from enquiries and queries from the Secretariat and Practising and Quality Control Committee		
4.	Evidence of co-operation with ANAN Quality Assurance Inspectors and Quality Assurance Review Team.		
5	Evidence of registration of SCUML		



# RECOMMENDATION OF THE PRACTICING & QUALITY CONTROL COMMITTEE

Chairman's Signature \_\_\_\_\_ Date \_\_\_\_\_

## DETAILS OF APPROVAL

Date of Approval \_\_\_\_\_

Registrar's Signature \_\_\_\_\_

## APPENDIX 7

ISQC 1

### INTERNATIONAL STANDARD ON QUALITY CONTROL 1

#### QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

(Effective as of December 15, 2009)

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## SERVICES ENGAGEMENTS

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### QUALITY CONTROL

Human Resources .....

Engagement Performance .....

Monitoring .....

Documentation of the System of Quality Control .....

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" should be read in conjunction with ISA 200,

"Overall Objectives of the Independent Auditor and the Conduct of an Audit in

Accordance with International Standards on Auditing."

## QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

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### Introduction

#### Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements.
2. Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220,<sup>1</sup> for example, deals with quality control procedures for audits of financial statements.
3. A system of quality control consists of policies designed to achieve the objective set out in paragraph 11 and the procedures necessary to implement and monitor compliance with those policies.

## **Authority of this ISQC**

4. This ISQC applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagements. The nature and extent of the policies and procedures developed by an individual firm to comply with this ISQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.
5. This ISQC contains the objective of the firm in following the ISQC, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 8, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
6. The objective provides the context in which the requirements of this ISQC 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 ISQC 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:

1 ISA 220, “Quality Control for an Audit of Financial Statements.”

## **QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS**

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### **QUALITY CONTROL**

- 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 ISQC. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this ISQC.

9. This ISQC includes, under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* published by IFAC includes the terms defined in this ISQC. It also includes descriptions of other terms found in this ISQC to assist in common and consistent interpretation and translation.

### **Effective Date**

10. Systems of quality control in compliance with this ISQC are required to be established by December 15, 2009.

### **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 professional standards and applicable legal and regulatory requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.

### **Definitions**

12. In this ISQC, the following terms have the meanings attributed below:

## ISQC 1

### QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

- (a) **Date of report** The date selected by the practitioner to date the report.
- (b) **Engagement documentation** The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used).
- (c) **Engagement partner<sup>2</sup>** The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) **Engagement quality control review** A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.
- (e) **Engagement quality control reviewer** A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.
- (f) **Engagement team** All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.
- (g) **Firm** A sole practitioner, partnership or corporation or other entity of professional accountants.

- (h) **Inspection** In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
- (i) **Listed entity** An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
- (j) **Monitoring** A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements,

2 "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

## ISQC 1

### QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

- (k) **Network firm** A firm or entity that belongs to a network.
- (l) **Network** A larger structure:
  - (i) That is aimed at cooperation, and
  - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (m) **Partner** Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (n) **Personnel** Partners and staff.

- (o) Professional standards IAASB Engagement Standards, as defined in the IAASB's *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, and relevant ethical requirements.
- (p) Reasonable assurance In the context of this ISQC, a high, but not absolute, level of assurance.
- (q) Relevant ethical requirements Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with national requirements that are more restrictive.
- (r) Staff Professionals, other than partners, including any experts the firm employs.
- (s) Suitably qualified external person An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.

## 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

#### ISQC 1

#### QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

text of this ISQC, 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 ISQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided in respect of audits and reviews of financial statements, and other assurance and related services engagements. (Ref: Para. A1)
15. The requirements are designed to enable the firm to achieve the objective stated in this ISQC. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this ISQC to meet the stated objective.

### **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. A2A3)

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

18. The firm shall establish policies and procedures designed to promote an internal culture recognizing 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. A4A5)

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)

## ISQC 1

### QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

#### QUALITY CONTROL

##### **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. A7A10) *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. Such policies and procedures shall enable the firm to: (Ref: Para. A10)
  - (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.

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

#### QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

- (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 the actions taken to resolve the matter, so that the firm can determine whether it should take further action.
24. 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. (Ref: Para. A10A11)
25. The firm shall establish policies and procedures: (Ref: Para. A10)
- (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
  - (b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12A17)

### **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. A19A20, A23)

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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)
- (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. A22A23)

## **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 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. (Ref: Para. A24A29)

### *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;

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- (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 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. (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 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; (Ref: Para. A32A33)
  - (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 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. (Ref: Para. A36A40)

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*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 judgments 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 (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).
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. A42A43)
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;
  - (b) Review of the financial statements or other subject matter information and the proposed report;



- (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
  - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate. (Ref: Para. A44)
38. For audits of financial statements 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

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- (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A45A46)

#### 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. A49A51)
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 judgments the engagement team made and the conclusions it reached were not appropriate.

#### 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. A52A53)
44. 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.

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## 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 finalized. (Ref: Para. A54A55) 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. A56A59) 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. A60A63) 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. A64A68)

*Evaluating, Communicating and Remediating 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 professional standards and applicable legal and

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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.
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 professional standards 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

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To comply with this ISQC, 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*

- 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 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 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. (Ref: Para. A71A72)

### **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. A73A75)
- 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

#### *Considerations Specific to Smaller Firms* (Ref: Para. 14)

- A1. This ISQC does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no staff. Requirements in this ISQC such as those for policies and procedures for the assignment of appropriate personnel to the engagement team (see paragraph 31), for review responsibilities (see paragraph 33), and for the annual communication of the results of monitoring to engagement partners within the firm (see paragraph 53) are not relevant in the absence of staff.

#### **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 recognizes the importance of obtaining feedback on the firm's system of quality control.

#### *Considerations Specific to Smaller Firms*

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

## **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 emphasize 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 recognizes and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal

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dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm's internal documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

A5. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Promoting such an internal culture includes:

- (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. The IESBA 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 behavior.

A8. Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may

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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.

A9. 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.

Definition of “Firm,” “Network” and “Network Firm” (Ref: Para. 2025)

A10. The definitions of “firm,” “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA. For example, the ESBA Code<sup>3</sup> defines the “firm” as:

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

The IESBA Code also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 2025, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

### Written Confirmation (Ref: Para. 24)

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

### Familiarity Threat (Ref: Para. 25)

- A12. The IESBA 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.

### 3 IESBA Code of Ethics for Professional Accountants.

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A13. Determining appropriate criteria to address familiarity threat may include matters such as:

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

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

- A14. The IESBA Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IESBA Code requires the rotation of the key audit partner<sup>4</sup> after a pre-defined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.

## Considerations specific to public sector audit organizations

- 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 2025, 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 organizations to establish policies and procedures to promote compliance with the spirit of rotation of engagement partner responsibility.

4 As defined in the IESBA Code.

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## 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:

- 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 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.

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- The reasons for the proposed appointment of the firm and nonreappointment 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.
- Inquiry 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 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.

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Documenting significant matters, consultations, conclusions and the basis for the conclusions.

*Considerations Specific to Public Sector Audit Organizations (Ref: Para. 2628)*

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 2628 and A18A22 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.
- 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.



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- A26. The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Effective policies and procedures emphasize the need for continuing training for all levels of firm personnel, and provide the necessary training resources and assistance to enable personnel to develop and maintain the required competence and capabilities.
- 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 counseling on, performance, progress and career development; and
  - Helping personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.

*Considerations Specific to Smaller Firms*

- 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.

### **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;

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

## **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 standardized 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 judgments made and the form of report being issued.
- Appropriate documentation of the work performed and of the timing and extent of the review.
- Processes to keep all policies and procedures current.

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;

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- Addressing significant matters arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

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

A35. A review consists of consideration of whether:

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

### *Consultation (Ref: Para. 34)*

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

A37. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the firm's policies and procedures helps to promote a culture in which consultation is recognized as 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,

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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;

Professional and regulatory bodies; or

Commercial organizations 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 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 (Ref: Para. 36-37)

A42. The engagement report is not dated until the completion of the engagement quality control review. However, documentation of the engagement quality control review may be completed after the date of the report.

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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 judgments made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of a listed entity include:

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

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

#### Considerations specific to public sector audit organizations

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 the financial statements of a listed entity is likely to be an individual with

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sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements 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 judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Such consultation avoids identification of differences of opinion at a late stage of the engagement and need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.

#### 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 3941 and guidance in paragraphs A47A48 apply.

#### Considerations specific to public sector audit organizations

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

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General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

### *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 is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

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 unauthorized 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 unauthorized changes to the engagement documentation; and
- Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

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 authorized users.
- Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
- Procedures for properly distributing engagement documentation to the team members at the start of the engagement, processing it during engagement, and collating it at the end of engagement.

- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

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.

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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.

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 authorized external parties to access and review specific engagement documentation for quality control or other purposes. Ownership of engagement documentation

A63. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

## **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 professional standards 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.

A65. 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;
- Written confirmation of compliance with policies and procedures on independence;
- Continuing professional development, including training; and
- Decisions related to acceptance and continuance of client relationships and specific engagements.
- Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the firm's policies and procedures relating to education and training.
- Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
- Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures.

A66. Inspection cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following:

- The size of the firm.
- The number and geographic location of offices.
- The results of previous monitoring procedures.
- The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them).

- The nature and complexity of the firm's practice and organization.
- The risks associated with the firm's clients and specific engagements.

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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 design and implementation of the firm's quality control policies and procedures, or who may be involved in performing the engagement quality control review. A firm with a limited number of persons may choose to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, the firm may establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.

#### *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.

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#### 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 judgment 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 organization.

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 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*

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

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## APPENDIX 8

# INTERNATIONAL STANDARD ON AUDITING 220 QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods  
beginning on or after December 15, 2009)

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## QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the specific responsibilities of the Auditor regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. This ISA is to be read in conjunction with relevant ethical requirements.

#### System of Quality Control and Role of Engagement Teams

2. Quality control systems, policies and procedures are the responsibility of the Audit Firm. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
  - (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>1</sup>

This ISA is premised on the basis that the firm is subject to ISQC 1 or to national requirements that are at least as demanding. (Ref: Para. A1)

3. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures that are applicable to the audit engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.
4. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A2)

## Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

## Objective

6. The objective of the Auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:
  - (a) The audit complies with professional standards and applicable legal and regulatory requirements; and

1 ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements," paragraph 11.

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- (b) The Auditor's report issued is appropriate in the circumstances.

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) **Engagement partner** The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the Auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
  - (b) **Engagement quality control review** A process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report. The engagement quality control review process is for audits of financial statements of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.

- (c) **Engagement quality control reviewer** A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report.
- (d) **Engagement team** All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.<sup>3</sup>
- (e) **Firm** A sole practitioner, partnership or corporation or other entity of professional Accountants.
- (f) **Inspection** In relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
- (g) **Listed entity** An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

<sup>2</sup> "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

<sup>3</sup> ISA 620, "Using the Work of an Auditor's Expert," paragraph 6(a), defines the term "auditor's Expert."

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- (h) **Monitoring** A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.
- (i) **Network firm** A firm or entity that belongs to a network.

- (j) Network A larger structure:
  - (i) That is aimed at cooperation, and
  - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (k) Partner Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (l) Personnel Partners and staff.
- (m) Professional standards International Standards on Auditing (ISAs) and relevant ethical requirements.
- (n) Relevant ethical requirements Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive.
- (o) Staff Professionals, other than partners, including any experts the firm employs.
- (p) Suitably qualified external person An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits of historical financial information or of an organization that provides relevant quality control services.

## Requirements

### Leadership Responsibilities for Quality on Audits

- 8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Ref: Para. A3)

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### Relevant Ethical Requirements

9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. (Ref: Para. A4A5)
10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)

### *Independence*

11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (Ref: Para. A5) (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
- (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6A7)

### Acceptance and Continuance of Client Relationships and Audit Engagements

12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit

engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8A9)

13. If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A9)

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### Assignment of Engagement Teams

14. The engagement partner shall be satisfied that the engagement team, and any Auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:
  - (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
  - (b) Enable an auditor's report that is appropriate in the circumstances to be issued. (Ref: Para. A10A.2)

### Engagement Performance

#### *Direction, Supervision and Performance*

15. The engagement partner shall take responsibility for:
  - (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A13A15, A20)
  - (b) The auditor's report being appropriate in the circumstances.



## *Reviews*

16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A16A17, A20)
17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A18A20)

## *Consultation*

18. The engagement partner shall:
  - (a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
  - (b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
  - (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and

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- (d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A21A22)

## *Engagement Quality Control Review*

19. For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:

- (a) Determine that an engagement quality control reviewer has been appointed;
  - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
  - (c) Not date the Auditor's report until the completion of the engagement quality control review. (Ref: Para. A23A25)
20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
- (a) Discussion of significant matters with the engagement partner;
  - (b) Review of the financial statements and the proposed auditor's report;
  - (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
  - (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26A27, A29A31)
21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
- (a) The engagement team's evaluation of the firm's independence in relation to the audit 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 audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A28A31)

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*Differences of Opinion*

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

**Monitoring**

23. An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A32A34)

**Documentation**

24. The Auditor shall include in the audit documentation:
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
  - (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
  - (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.

- (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. A35)
25. The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
- (a) The procedures required by the firm's policies on engagement quality control review have been performed;
  - (b) The engagement quality control review has been completed on or before the date of the auditor's report; and
  - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.

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4 ISA 230, "Audit Documentation," paragraphs 8-11, and A6.

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### **Application and Other Explanatory Material**

#### **System of Quality Control and Role of Engagement Teams (Ref: Para. 2)**

- A1. ISQC 1, or national requirements that are at least as demanding, deals with the firm's responsibilities to establish and maintain its system of quality control for audit engagements. The system of quality control includes policies and procedures that address each of the following elements:
- Leadership responsibilities for quality within the firm;
  - Relevant ethical requirements;
  - Acceptance and continuance of client relationships and specific engagements;
  - Human resources;
  - Engagement performance; and
  - Monitoring.

National requirements that deal with the firm's responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 when they address all the elements referred to in this paragraph and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

*Reliance on the Firm's System of Quality Control (Ref: Para. 4)*

A2. Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:

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

**Leadership Responsibilities for Quality on Audits (Ref: Para. 8)**

A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:

(a) The importance to audit quality of:

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- (i) Performing work that complies with professional standards and applicable legal and regulatory requirements;

- (ii) Complying with the firm's quality control policies and procedures as applicable;
  - (iii) Issuing auditor's reports that are appropriate in the circumstances; and
  - (iv) The engagement team's ability to raise concerns without fear of reprisals; and
- (b) The fact that quality is essential in performing audit engagements.

### **Relevant Ethical Requirements**

#### *Compliance with Relevant Ethical Requirements (Ref: Para. 9)*

- A4. The IESBA 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 behavior.

#### *Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 911)*

- A5. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this ISA. For example, the IESBA Code defines the "firm" as:
- (a) A sole practitioner, partnership or corporation of professional accountants;
  - (b) An entity that controls such parties through ownership, management or other means; and
  - (c) An entity controlled by such parties through ownership, management or other means.

The IESBA Code also provides guidance in relation to the terms “network” and “network firm.”

In complying with the requirements in paragraphs 911, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

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### *Threats to Independence (Ref: Para. 11(c))*

- A6. The engagement partner may identify a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level. In that case, as required by paragraph 11(c), the engagement partner reports to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation.

### *Considerations Specific to Public Sector Entities*

- A7. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory Auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 11. This may include, where the public sector auditor's mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

### **Acceptance and Continuance of Client Relationships and Audit Engagements** (Ref: Para. 12)

- A8. ISQC 1 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when

deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.<sup>5</sup> Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team can comply with relevant ethical requirements; and
- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

<sup>5</sup> ISQC 1, paragraph 27(a).

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### *Considerations Specific to Public Sector Entities (Ref: Para. 1213)*

A9. 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 audit engagements as set out in paragraphs 12, 13 and A8 may not be relevant.

Nonetheless, information gathered as a result of the process described may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.



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## **Assignment of Engagement Teams (Ref: Para. 14)**

A10. An engagement team includes a person using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. Consultations are addressed in paragraphs 18, A21 and A22.

A11. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

### *Considerations Specific to Public Sector Entities*

A12. In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption.

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### Engagement Performance

*Direction, Supervision and Performance* (Ref: Para. 15(a))

A13. Direction of the engagement team involves informing the members of the engagement team of matters such as:

- Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism as required by ISA 200.6
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- The objectives of the work to be performed.
- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the engagement.

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

A14. Appropriate teamwork and training assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.

A15. Supervision includes matters such as:

- Tracking the progress of the audit engagement.

- Considering the competence and capabilities of individual members of the engagement team, including 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 audit engagement.
- Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.

6 ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing," paragraph 15.

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### *Reviews*

#### Review Responsibilities (Ref: Para. 16)

A16. Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that work of less experienced team members is reviewed by more experienced team members.<sup>7</sup>

A17. A review consists of consideration whether, for example:

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor's report; and
- The objectives of the engagement procedures have been achieved.

#### The Engagement Partner's Review of Work Performed (Ref: Para. 17)

A18. Timely reviews of the following by the engagement partner at appropriate stages during the engagement allow significant matters to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report:

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

The engagement partner need not review all audit documentation, but may do so. However, as required by ISA 230, the partner documents the extent and timing of the reviews.<sup>8</sup>

A19. An engagement partner taking over an audit during the engagement may apply the review procedures as described in paragraph A18 to review the work

<sup>7</sup> ISQC 1, paragraph 33.

<sup>8</sup> ISA 230, paragraph 9(c).

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Performed to the date of a change in order to assume the responsibilities of an engagement partner.

*Considerations Relevant Where a Member of the Engagement Team with Expertise in a Specialized Area of Accounting or Auditing Is Used (Ref: Para. 1517)*

A20. Where a member of the engagement team with expertise in a specialized area of accounting or auditing is used, direction, supervision and review of that engagement team member's work may include matters such as:

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

*Consultation (Ref: Para. 18)*

A21. 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.

A22. It may be appropriate for the engagement team to consult outside the firm, for example, where the firm lacks appropriate internal resources. They may take advantage of advisory services provided by other firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.

*Engagement Quality Control Review*

Completion of the Engagement Quality Control Review before Dating of the Auditor's Report (Ref: Para. 19(c))

A23. ISA 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.<sup>9</sup> In cases of an audit of financial statements of listed entities or when an engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

9 ISA 700, "Forming an Opinion and Reporting on Financial Statements," paragraph 41.

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- A24. 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 auditor's report.
- A25. Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 2021, and where applicable, compliance with paragraph 22. Documentation of the engagement quality control review may be completed after the date of the auditor's report as part of the assembly of the final audit file. ISA 230 establishes requirements and provides guidance in this regard.<sup>10</sup>  
Nature, Timing and Extent of Engagement Quality Control Review (Ref: Para. 20)
- A26. Remaining alert for changes in circumstances allows the engagement partner to identify situations in which an engagement quality control review is necessary, even though at the start of the engagement, such a review was not required.
- A27. The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is a listed entity, and the risk that the auditor's 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 for the audit engagement and its performance. Engagement Quality Control Review of Listed Entities (Ref: Para. 21)

A28. Other matters relevant to evaluating the significant judgments made by the engagement team that may be considered in an engagement quality control review of a listed entity include:

- Significant risks identified during the engagement in accordance with ISA 315,<sup>11</sup> and the responses to those risks in accordance with ISA 330,<sup>12</sup> including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240.<sup>13</sup>
- Judgments made, particularly with respect to materiality and significant risks.
- The significance and disposition of corrected and uncorrected misstatements identified during the audit.

<sup>10</sup> ISA 230, paragraphs 14-16.

<sup>11</sup> ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

<sup>12</sup> ISA 330, "The Auditor's Responses to Assessed Risks."

<sup>13</sup> ISA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements."

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- 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 financial statements of other entities.



## Considerations Specific to Smaller Entities (Ref: Para. 2021)

A29. In addition to the audits of financial statements of listed entities, an engagement quality control review is required for audit engagements that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.

## Considerations Specific to Public Sector Entities (Ref: Para. 2021)

A30. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

A31. Listed entities as referred to in paragraphs 21 and A28 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. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.

## Monitoring (Ref: Para. 23)

A32. ISQC 1 requires the firm to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.<sup>14</sup>

A33. In considering deficiencies that may affect the audit engagement, the engagement partner may have regard to measures the firm took to rectify the

14ISQC 1, paragraph 48.

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situation that the engagement partner considers are sufficient in the context of that audit.

A34. A deficiency in the firm's system of quality control does not necessarily indicate that a particular audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate.

### **Documentation**

#### *Documentation of Consultations* (Ref: Para. 24(d))

A35. 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.