PCPLimited

ISQC 1 MANUAL INTERNATIONAL VERSION

VERSION 7

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CONFIRMATION OF UNDERSTANDING SCHEDULE

Each partner and member of staff/subcontractor/consultant involved in audit work is required to sign below to signify that they have read and understand and will follow the policies and procedures set out by the firm in respect of ISQC 1 which are contained within this manual.

Any suggestions for improvement to the firm's procedures should be given to the Partner in Charge of Compliance INSERT NAME

Name	Position	Signature	Date

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GUIDANCE NOTES

Welcome to version 7 of the PCP ISQC 1 manual. The manual has been updated to reflect some recent changes. The changes arise as a result of the introduction of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics, the revision of International Education Standard 8 “Professional competence for Engagement Partners responsible for audits of Financial Statements”, and changes in best practice. The manual now also covers Public Interest Entities (PIEs).

Some changes in the structure of the manual have been made and the policies and procedures have now been incorporated into each of the seven sections of the manual rather than forming their own section at the front of the file. These policies and procedures should be tailored for the firm’s own specific circumstances. Some supplementary forms which link into the policies and procedures are contained as appendices. It is important to appreciate that the policies and procedures contained in this manual only provide a starting point and are not suitable for the specific circumstances of every firm hence the importance of the tailoring process.

A contents section has been added to the product to make it easier to find documents when a hard copy rather than an electronic copy of the manual is being maintained.

Some forms which were deemed superfluous have been removed, as has the old anti-money laundering section which is now best dealt with separately and not linked with ISQC 1.

Dealing with compliance issues forms an important part of the everyday running of a modern accountancy practice. It has always been important for firms to ensure good procedures are implemented in this area and there must be constant monitoring of these procedures to ensure they are updated regularly and properly complied with.

ISQC 1 requires the firm to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or audit engagement partner are appropriate in the circumstances. Much emphasis is placed on formal documentation. It applies to all firms regardless of size, although the nature of the policies required will evidently be different depending on the size of the firm. A practical option for compliance with ISQC 1 is to create an ISQC 1 procedures file. This manual is designed to help in this regard and to assist in satisfying these requirements.

The starting point for using this product is to tailor the policies and procedures contained within the manual to suit the individual circumstances of the firm. The name of the firm and individuals within the firm can be added within sections. This is done through completing the sections that are filled out in yellow. The wording of the narrative also needs amended using word to ensure that it reflects the firm’s individual circumstances. This is extremely important.

Within this manual we refer to the partner in charge of compliance (PCC). This is the person(s) who is delegated the responsibility for these procedures by the firm’s top tier of management.

In addition, within this document, you will see hyperlinks cross referenced to other explanatory documents which also form part of the manual. The manual contains forms for partners and staff to complete. These can be accessed and printed off for manual completion or can be completed electronically.

There is one new term in the manual “Key Audit Partner”. The definition of this term as per the Glossary for the International Code of Ethics for Professional Accountants is as follows:

Key Audit Partner –

The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.

There are a number of sections contained within ISQC 1 and each is referred to in more detail below:

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

ISQC 1 requires audit firms to be led from the very top. It is the firm’s Chief Executive Officer or Managing Partner, or if appropriate the management committee who assume ultimate responsibility for the firm’s system of quality control. The firm must establish policies which promote a culture of quality within the organisation. ISQC 1 places particular importance on the need for a firm’s leadership to recognise that a firm’s business strategy is subject to the overriding requirement for a firm to achieve quality in all engagements that a firm performs, and stresses that:

- Commercial considerations should never override the quality of work performed:
- Performance evaluation, compensation and promotion are designed to demonstrate a firm’s commitment to quality: and
- Sufficient resources should be devoted to the development, documentation and support of its quality control policies and procedures.

The firm’s management should assign operational responsibility for the firm’s quality control system to a person who has sufficient and appropriate experience, ability and authority. Although one person may be given responsibility for the quality system, they may delegate specific tasks to other suitably qualified individuals.

This role is central to ensuring good compliance in relation to audit work. It is a role that needs to be considered throughout the year. The firm’s compliance procedures should be constantly monitored to ensure that they are being complied with, updated when appropriate and notified to all partners and staff.

The partner who is delegated to take responsibility for audit compliance must be chosen carefully. It should be the individual within the practice who is most suitable for the role. This will not necessarily be the most recently qualified partner or the partner with the most audits. The partner chosen to fill the role needs to be familiar with all aspects of the audit regulations, the requirements of the International Standards of Auditing (ISAs), and must have the commitment to ensure that the practice complies with all of these. They need to have the authority to insist that all partners and staff comply with the firm’s procedures, and they need to have the time to fulfil their duties which can be time consuming. Time must be set aside to enable the role to be carried out properly. In the case of a sole practitioner the partner in charge of compliance will be the sole practitioner themselves.

A Statutory Auditor must be a qualified individual who is competent to carry out audit work and who is eligible to sign audit reports on behalf of the firm.

ETHICAL REQUIREMENTS AND INDEPENDENCE

The firm must establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements such as the IESBA Code of Ethics for Professional Accountants and any ethical pronouncements issued by their relevant professional body.

They must have in place policies and procedures which are designed to:

- communicate independence requirements to their staff and any others bound by them; and
- identify and evaluate threats to the firm’s independence and apply appropriate safeguards as

required.

To meet these requirements, sufficient information must be held about the engagements undertaken by the firm, including the scope of the services provided to each client. To achieve this aim the firm needs to ensure comprehensive updated engagement letters are in place for all audit clients.

Ethics Partner

One partner in the firm should be designated as the “Ethics Partner”.

The Ethics Partner should have responsibility for:

a) The adequacy of the firm’s policies and procedures relating to integrity, objectivity and independence, their compliance with the IESBA Code of Ethics for Professional Accountants and the effectiveness of their communications to partners and staff within the firm:

b) Providing related guidance to individual partners:

c) Updating the firm’s policies as necessary:

d) Reporting instances of non-compliance to the Partner in Charge of Compliance: and

e) Co-ordinating training for all ethics related matters.

INDEPENDENCE AND ETHICS

The firm must have policies and procedures in place to provide it with reasonable assurance that if it is notified of breaches of independence that appropriate action is taken to resolve the matter. This means:

(a) staff must notify the firm of any independence breaches of which they become aware immediately; and

(b) breaches must be notified to the Audit Engagement Partner who must address the matters raised. If necessary, the Ethics Partner should also be notified.

The IESBA Code of Ethics for Professional Accountants draws attention to the familiarity threat that may be created by using the same senior personnel on an audit or assurance engagement over a long period of time and the safeguards that may reduce the threat. The firm must establish a policy and procedure which:

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

(b) for all audits of listed entities, requires the rotation of the engagement partner after a specified period in compliance with the IESBA Code of Ethics for Professional Accountants and any relevant local legislation.

Annual declarations of independence from all relevant personnel must be obtained. A form for this (Fit and proper form for an individual) can be found at Appendix 3.

To summarise all potential threats to the firm an independence register should be maintained. The Independence register can be found at Appendix 4. This allows the partner to identify any areas which could give rise to potential problems and to take the necessary action. In addition to the consideration of independence, the impact on the firm’s ability to be objective when dealing with public interest clients (listed entities in the main) must always be considered. A form that can be used for recording public interest clients has been included at Appendix 5 Public interest client register.

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Responsibilities – Partners and Staff

The firm must ensure that all partners and staff involved in audit work maintain an up to date knowledge of the IESBA Code of Ethics for Professional Accountants.

Each partner or staff member working on or due to work on any assurance engagement must confirm to the engagement partner that they are independent from the client, or notify the engagement partner of any threat or possible threat to independence in order that appropriate safeguards can be applied. This must be done annually.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS

This is a vital area for maintaining the quality of the firm's client base. Principals and staff must consider the following factors when accepting or continuing audit and assurance relationships or engagements:

- the integrity of the client:
- the firm's competence to perform the engagement: and
- ethical requirements.

Specimen forms for highlighting the firm's policies and procedures in this area are included at Appendix 9 new client checklist and at Appendix 10 reappointment checklist. The new client checklist should be used when you are first appointed, and the reappointment checklist can be used when completing an audit, to assess if the reappointment can be accepted.

The information should be obtained or reviewed at the start of the relationship with the client, when accepting recurring work in second or subsequent years or when accepting a new engagement from an existing client.

The firm should determine if there are any professional or other reasons for not accepting the appointment or reappointment. If the client is new the firm must get permission from the client to contact the previous auditor. Contact should be formal, by way of letter.

The firm also needs to consider the following types of issues:

- Does the firm want to act for the client?
- Why is the client changing advisers/auditors?
- What was the source of the business?
- What is the client's background?
- Are there any fee issues?
- Is there any indication of a limitation in the scope of audit work to be performed?
- Are there any ethical problems in accepting the appointment?
- Has the firm the technical ability to carry out the assignment?
- Is Anti-Money Laundering a potential issue?

If the firm obtains information that could have caused it to decline an engagement if that information had been available earlier, then the decision to act must be well documented. The decision to act should take account of the professional and legal responsibilities that apply, including any reporting requirements to regulators. The firm must demonstrate that they have considered the possibility of withdrawing from both the engagement and the client relationship.

If the firm declines or withdraws from any appointment, policies should be in place to ensure the firm:

- Discusses the matter with the client's management and those charged with its governance:
- Considers if there is a professional, regulatory or legal requirement for the firm to remain in place or for it to report the withdrawal from the engagement to the regulatory authorities: and
- Documents all significant issues and conclusions.

Handover of audit assignments

In certain countries, when there is a change in an audit appointment, the Statutory Auditor ceasing to hold office ("the predecessor") will be required to provide access to relevant information where the newly appointed registered auditor ("the successor") makes a written request for such access.

Where the information related to audit work is requested by the successor but is not filed on the current audit file but, for example, on a 'permanent' or 'systems' file, or there is a reference to a prior year's audit file, access should be provided by the predecessor to this information.

The predecessor should be prepared to assist the successor by providing oral or written explanations on a timely basis to assist the latter's understanding of the audit working papers.

There is no obligation to allow the copying of working papers but it would be usual to allow copying of extracts of the books and records of the audit client that are contained in the audit working papers.

A request for information should not be made other than in connection with the successor's audit. The successor should refuse to accept an additional engagement, such as to act as an expert witness or to review the quality of the predecessor's audit work, where the engagement would involve the use of the information obtained by it. In any event, the successor should not comment on the quality of the predecessor's audit work unless required to do so by a legal or professional obligation.

In the case of access to audit working papers, it will be for the predecessor to determine the format in which they are willing to provide access. This may either be in hard copy or in electronic form. However, it should do so in a manner that does not put at risk the confidentiality of its firm's audit methodologies or of the confidential information of other clients.

The successor should make notes of its review in support of its own documentation requirements under ISA 230.

The predecessor is under no obligation to allow copying of its audit working papers, but it would be reasonable to allow, as a minimum, the copying of extracts of the books and records of the client. It would also be reasonable and indeed helpful to allow copying of papers such as: breakdown of analyses of financial statement figures and documentation of the client's systems and processes.

The location where access is to be provided will be for the predecessor to determine. Access will normally be at the predecessor's premises in the country concerned.

HUMAN RESOURCES

The firm must ensure they recruit staff of appropriate quality and integrity. To help ensure this happens, the recruitment process undertaken needs to be rigorous. The interview questions at Appendix 13 and post interview assessment at Appendix 14 forms should be completed by the firm or relevant individual annually. It is important to ensure references are obtained for all new staff and an example reference request is contained at Appendix 15.

The firm must also ensure that capabilities and competence are developed and maintained by, for example:

- Professional education:
- CPD, including training:
- Work experience: and
- Mentoring and coaching by experienced staff.

The firm should allocate appropriately experienced and qualified staff to each engagement, together with an engagement partner whose responsibilities are clearly defined and understood. The identity and role of the engagement partner should be communicated to key members of the client's management team and those charged with governance. The engagement partner must be competent to perform the required role and his responsibilities must be clearly defined.

The firm must have a system in place to monitor the workload and availability of the engagement partner so that they have sufficient time to adequately discharge their responsibilities.

There should also be evaluation of, and counselling on, performance, progress and career development for members of staff. The following forms should help in this respect.

- Training assessment form — Appendix 16
- CPD training record — Appendix 17
- IES 8 assessment form for Audit Engagement Partners — Appendix 18
- Skills questionnaire – individual — Appendix 19

These forms should help to assess training needs, to identify the skills required for staff to undertake their duties and to provide a statutory record of CPD for the firm's professional body.

International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)

This International Education Standard (IES) prescribes the professional competence that professional accountants are required to develop and maintain when performing the role of an Audit Engagement Partner (AEP) responsible for the audits of financial statements. IES 8 was revised in 2016 and again in 2019. Almost all professional bodies globally who have responsibility for regulating audit work require AEPs to comply with the requirements of IES 8. This needs to be done annually. This can be demonstrated using the relevant form at Appendix 18 IES 8 assessment form for audit engagement partners.

IES 8 lists some of areas of competence that each AEP must demonstrate. Each area is comprised of learning outcomes. The AEP must demonstrate how each learning outcome has been achieved during the year by undertaking the necessary CPD and practical experience needed. Practical experience for AEPs may be evidenced by annual self-declarations, records of chargeable time and the results of qualitative monitoring activities such as cold file reviews and regulatory inspections.

ENGAGEMENT PERFORMANCE

The firm must establish policies and procedures to ensure that all our audit and assurance engagements are properly carried out using the appropriate manuals and checklists etc.

The firm should have a consultation policy to ensure:

- Consultation takes place on difficult or contentious matters:
- Sufficient resources are available to enable appropriate consultation to take place:
- The nature and scope of the consultation are documented: and

- Conclusions resulting from consulting are documented.

The consultation may be internal or external, but it should be carried out only by those with appropriate expertise in the relevant area. The consultation of course needs to be appropriately documented. There is a written agreement for consultation purposes in Appendix 21 and a record of consultation at Appendix 22 to help demonstrate compliance in this respect.

The firm must have a policy in place for dealing with and resolving differences of opinion within the engagement team and between the engagement partner and the engagement quality control reviewer. The conclusion must be documented for all matters of this nature.

The firm must assign responsibility for each engagement to an engagement partner. This fact should be communicated to the client. The engagement partner should have clearly defined responsibilities and must be capable of fulfilling the role.

An engagement quality control review must be undertaken for all listed entities. In addition, firms should have procedures for identifying other audits requiring such a review. The following criteria should be used for selecting engagements that require an engagement quality control review:

- Whether the client is a listed company:

- Whether the client is another form of public interest entity:

- Whether there are unusual circumstances:

- Whether laws or regulations require a quality control review:

- Whether the assignment is high risk, due to the sector in which the client operates, accounting practices, the quality of its management, regulatory requirements, or for some other reason:

- Whether any specific areas of the assignment are considered high risk or complex:

- Whether any independence issues have been identified:

- Concerns about the entity's ability to continue as a going concern:

- The client is a transnational entity:

- Entities where the auditor's report is qualified (or qualification has received serious consideration):

- Entities in the process of an initial public offering (IPO) or equivalent process, or contemplating such; or entities subject to, or considering proposing, a merger or acquisition:

- Engagements subject to joint audits:

- Certain financial-services-related entities, such as regulated depository institutions, insurance companies and pension plans: or

- Entities possessing characteristics, which may indicate that the entity resembles a public interest entity (PIE), for example, due to their size, products, or services for which they are known, public sector entities, charities, or not-for-profit organizations having a public interest mandate.

Carrying out engagement quality control reviews and hot and cold file reviews

All reviews must be conducted by a suitably qualified person before the report is issued. If there is no suitably qualified person internally then an external person may be required such as a suitable training organisation. The review should be documented in accordance with the guidance in detailed points from file reviews which can be found on Appendix 27.

The eligibility of the reviewer depends upon both his or her technical qualifications and the degree to which the reviewer can be consulted on the engagement without compromising the reviewer's independence.

It is the responsibility of the engagement partner in conjunction with the PCC to carry out an assessment of the need for a quality control review against specific criteria. This assessment should take place at the client acceptance or continuance evaluation stage and should consider the criteria in the preceding section.

An engagement quality control review (EQCR) is not necessarily a review of the whole file. The exact scope and extent of the review depends on the specific circumstances encountered. These are some of the issues that may be covered in the EQCR:

- The engagement letter to the client:
- Audit planning documentation relating to:
    - Procedures performed by the engagement team to evaluate team and firm independence:
    - Risks identified in the client acceptance/continuance decision:
    - Significant judgments made by the engagement team given the nature of the entity's business and activities:
    - Significant risks identified and whether they are appropriate and complete (in the context of the entity's business and industry) and appropriately addressed:
    - Engagement team consideration of assessing fraud risk:
    - Engagement team consideration of the need for consultation with, for example, specialists:
    - Where applicable, the proposed audit approach for group audits:
    - Rigour applied in the determination of materiality, including assumptions and judgments used:
- Any instances of non-compliance with accounting/reporting/taxation requirements and whether the implications of such non-compliance are reasonable:
- Significant matters noted in the engagement being satisfactorily resolved:
- Whether the degree of consideration given to "going concern" has been appropriate:
- Audit documentation relating to:
    - Significant issues identified by the engagement team and whether they are appropriate and complete and whether the evidence gathered supports the conclusion reached:
    - Reasonableness of the results of the subsequent events review procedures:
    - Whether appropriate consultations have taken place and whether the conclusions arising from such consultations have been appropriately addressed and adequately documented:
    - Adjusted and unadjusted misstatements (including uncorrected disclosures) and whether these have been treated appropriately:

  - Disclosure requirements and possible omissions.

- The proposed audit report and whether the report wording aligns with engagement outcomes:
- Other information in documents which contain the audited financial statements to identify any material inconsistencies/misstatements that could undermine the credibility of the financial statements and audit report: and
- Communications to those charged with governance (particularly matters related to independence) and regulators.

There must be documentation on file that the review was performed, that it was completed before the audit report was issued (i.e. a hot review) and that the reviewer is not aware of any unresolved matters that suggest that the conclusions of the engagement team were inappropriate.

Cold reviews should be planned to ensure that there is adequate coverage of all audit partners. Depending on the size of the practice and the number of audit clients that the firm has, the reviewer should aim to review one to two files each year for each employee or partner who is able by statute and the firm's procedures to sign off an audit report. The reviewer needs to ensure that:

I) he is independent in respect of the client: and

II) there is an adequate coverage of any special category audits undertaken by the practice.

The cold file reviews should be properly planned. The cold file review planning and control schedule in Appendix 23 can be used to provide evidence that this has been done.

Similarly, any hot review required should also be properly planned. The hot file review planning and control schedule in Appendix 24 can be used in this area.

Role of the Partner in Charge of Compliance (PCC)

The main duties of the partner fulfilling this role are summarised below. Although they will have overall responsibility for the standards of the audit work in the practice, the completion of many of the tasks that need to be undertaken can be delegated. The PCC needs to ensure that there are quality procedures in place and that compliance with those procedures is monitored and suitable action taken. It is also important to demonstrate that the firm maintains good standards of fitness and propriety. A fit and proper form for the firm as a whole in Appendix 26 can be used to provide evidence that this has been done.

Suitable Procedures

The practice needs procedures that enable it to demonstrate compliance with the audit regulations of their professional body. There is no exemption from this requirement. The procedures must be in writing, but they can be manual or electronic. The procedures need to be tailored to the individual circumstances of the practice. This is particularly relevant where an off-the-shelf package is used. The procedures must be updated whenever necessary. This could be because of changes within the practice, or changes to rules and regulations affecting the firm's services.

Communicating procedures and changes to partners and staff

All partners and staff (including subcontractors and consultants) must be made aware of the practice's procedures, and they must agree to comply. There must also be evidence to show that these procedures, along with any changes to the regulations and/or the firm's audit procedures, have been notified to all such individuals. This can be done by maintaining a signed register confirming an understanding of and willingness to comply with any procedures or changes to procedures by all relevant individuals i.e. those who are involved in audit work. The confirmation of understanding schedule which can be found at the front of the manual immediately after these guidance notes, can be used to provide evidence that this has been done.

When changes do occur staff must be notified of these changes. This may be in writing or e mail or by way of a memo circulated to all staff. When dealing with a more complex issue it may be more appropriate to undertake an internal training session or arrange for attendance at an externally organised training course.

The PCC must also ensure that the induction programme for new staff covers the issue of familiarising the new staff member with the firm's procedures. This process can be repeated if desired in 12 to 18 months if the staff member requires it.

MONITORING

The firm should entrust responsibility for the monitoring process to a partner or partners. Procedures should be in place to monitor the system of quality control, together with a periodic inspection of a selection of completed audit engagements.

ISQC 1 has a number of specific requirements relating to the reporting and follow-up of monitoring reviews. Firms must evaluate their quality control policies and ensure that they are complied with. This will include reviewing:

- Changes in professional standards and regulatory and legal requirements:
- Written confirmation by staff of compliance with independence policies and procedures:
- CPD and training:
- Decisions related to acceptance and continuance of engagements:
- Suggestions for corrective action and improvement:
- Communication of weaknesses in the system to those at an appropriate level: and
- Follow up procedures to action the recommendations.

At least one audit engagement for each audit engagement partner should be reviewed at least every three years. Three years is the absolute maximum period without a review being undertaken. ISQC 1 does not permit reviews to be undertaken by any individual involved in the audit.

Small firms or sole practitioners can initiate arrangements with another firm for reciprocal arrangements or they can engage an external organisation. An appropriate report must be issued at the end of the work and if deficiencies are found they must be communicated to the engagement partner along with recommendations for remedial action.

At least once a year the findings should be provided to the managing board of partners or equivalent.

Annual ISQC 1 Review

Compliance monitoring is a key part of the overall system of audit regulation.

ISQC 1 requires such a review to be carried out. The review to be undertaken needs to cover three distinct areas:

1. *The whole firm's procedures, at least on an annual basis*

   This is designed to ensure that the firm as a whole is complying with the audit regulations of their professional body. This will include such aspects as Professional Indemnity Insurance, Continuing Professional Development (CPD), client acceptance procedures etc. An example form for using when undertaking an annual ISQC 1 review questionnaire can be found at Appendix 29.

2. *A series of cold file reviews*

   A cold file review is a review undertaken after the audit report has been signed off. Cold file reviews should be undertaken covering the work of any partner who is able by law to sign off an audit report on behalf of the firm. Potentially, senior members of staff used on audits, as well as subcontractors and consultants should be considered as well. This is particularly important to ensure that the regulations are followed by all partners in the firm and to ensure a consistent standard is maintained across the whole firm. A sample of one or two audits for each partner will usually be more than sufficient, although this obviously depends on the size of the firm concerned. ISQC 1 requires that at least one assignment for each engagement partner should be reviewed at least once every three years. Three years is the absolute maximum period without a review being undertaken. The purpose of the cold file review is to ensure that the audits have been completed in accordance with the firm's procedures and with ISAs and that the accounts have been prepared in accordance with the relevant legislation. In addition, the reviews should ensure that an appropriate audit opinion was given.

   ISQC 1 does not permit the cold file review to be completed by the same person who has signed
   off the audit report.

Changes at the firm

Any changes required to be notified to the firm's professional body should be notified to them in accordance with the professional body's regulations.

Whole firm fitness and propriety

A firm should be able to satisfy the registration committee at their professional body that the firm is fit and proper. Part of this consideration should be looking at the fit and proper status of the practice as a whole by completing a Fit and proper form for a firm as a whole (see Appendix 26). This is in addition to each of the individual partners completing a fit and proper form in their own right (Fit and proper form for an individual) (see Appendix 3).

These forms should be completed on an annual basis for all partners and staff, including subcontractors and consultants, involved in audit. It is also good practice to complete them for staff not involved in audit and assurance work.

It is important to ensure that any potential independence problems identified from these forms have been fed
through to the relevant audit clients so that appropriate action can be taken. Due to the sensitive

nature of their content, the Partner in Charge of Compliance must ensure that they are placed in a secure place and that only the issues of relevance are fed through to the audit files.

Considering competence of staff

A sample of CPD records for both staff working on audit and partners should be reviewed to ensure that all staff and partners have undertaken sufficient suitable CPD. Where someone has not achieved the requisite number of hours, overall and particularly in audit then the reviewer should ascertain what action is being taken to rectify this for the current year. The firm may want to assess progress part way through the year to ensure that the individual is on target.

It should also be remembered that where the practice is employing subcontractors or consultants on audits that these individuals are also required to comply with the CPD requirements, and that it is the regulator's CPD requirements that are key. For a suitable form for completing CPD records, see CPD staff training record at Appendix 17.

If anyone is regularly failing to achieve their CPD target the reviewer should consider if it is reasonable for them still to be involved in audits.

Staff appraisals

The Regulations of most professional bodies require firms of registered auditors to 'make arrangements so that all partners and employees (including subcontractors and consultants) doing audit work are, and continue to be, competent to carry out the audits for which they are responsible or employed'. Part of this requirement is a continual assessment of the competence of the individual to work on the audit.

The consideration of the competence must start at the point that an individual is recruited. References should be obtained for all new members of staff. When completing the annual ISQC 1 reviews the sample of staff files and appraisal forms selected should include a sample of new employees (where applicable) to ensure that such references have been obtained, and that the reference responses have been fully considered and to ensure that the appraisals look reasonable.

The reviewer also needs to consider whether any action plan arising from these appraisals has been implemented, for example, has the individual been booked onto a relevant course when a training need has been identified.

Competence of partners and partner appraisals

To do this, the work of a sample of partners should be selected and reviewed. Particular emphasis should be placed on the action points and the evidence that these are being properly followed up. Although the practice may wish to take this opportunity to look at all aspects of an individual partner's performance, it is only the technical competence that needs to be assessed. This appraisal can be carried out at the time that the series of cold file reviews is undertaken. It must be discussed with the audit partner who must agree to any remedial action which is deemed necessary. This can be done by summarising the issues on the cold file reviews for partners on the Statutory Auditor appraisal form (Appendix 2) following the cold file review. All IES 8 assessment forms for Audit Engagement Partners at Appendix 18 should be reviewed for reasonableness.

The individual completing the annual ISQC 1 review must consider whether the points being raised are appropriate and whether there is evidence to show that the agreed action is taking place.

Use of subcontractors

The role and involvement of subcontractors should be examined. It is important to ensure that if a firm uses subcontractors, they have a written agreement in place with the subcontractor to maintain confidentiality and also that their competence, fitness and propriety are assessed.

The use of subcontractors on an audit needs to be well controlled. The subcontractor needs to meet all the requirements that are expected of an employee of the practice in respect of fit and proper, independence, CPD etc. Many of these issues are best addressed through a subcontractor agreement and the reviewer needs to consider for all subcontractors used whether a suitable agreement or alternative has been obtained. A sample of these should be inspected at the ISQC 1 review. A subcontractor agreement should be in place. The specimen subcontractor agreement at Appendix 30 should be used for this purpose.

Independence

This is an area that frequently leads to problems for audit practices. The IESBA Code of Ethics for Professional Accountants specifies situations which could pose a threat to the firm's independence. The firm's procedures must be such that their independence is considered at both the start and the end of the audit. At the start they are considering whether anything has occurred since reappointment which would impact on the firm's, or the Responsible Individual's, ability to act. At the end they are considering whether anything has occurred that would impact on their ability to seek reappointment. Although many of the issues being addressed only involve the audit partner, the procedures must also ensure that all the staff used on the assignment are independent.

The issue of the practice independence will usually be addressed via the audit documentation and it is essential that all relevant forms are properly completed. The issue of the staffs' independence will often be addressed via the annual completion of the statement of independence and confidentiality and confirmation of fit and proper status. Where a potential problem has been identified on any of these forms then the Partner in Charge of Compliance, as part of his review, should ensure that any necessary action is fed through to the relevant audit file.

An example Independence questionnaire for non-PIEs is contained in Appendix 7. An example independence questionnaire for PIEs and listed entities is contained in Appendix 8.

Professional Indemnity Insurance (PII)

In those countries where Professional Indemnity Insurance is required, a firm should have enough PII cover in place to meet the requirements of their professional body and also to match the risk profile of its clients. The justification of Professional Indemnity Insurance cover form at Appendix 31 can be used to demonstrate that these issues have been considered.

Documentation

The reviewer needs to consider what audit system is being used and whether it is kept up to date. The reviewer also needs to consider whether such updates are done promptly and whether it is appropriate given the nature of the firm's clients.

Particular attention is required where the firm has some specialist audit clients to ensure that the programmes and checklists being used are appropriate for these clients. There is a major risk that these audits will not be undertaken properly.

The firm also needs to consider whether all the staff are aware of the requirements of the systems that have
been adopted and that they are kept up to date on any changes.

Where there have been any updates to the regulations in the period since the last review the reviewer should ensure that these have been incorporated in the manual.

The firm's quality control procedures should be reflected in its ISQC 1 manual. The reviewer needs to ensure that all partners and staff involved in audit have confirmed their understanding of the procedures within the manual and confirmed their willingness to comply.

Consultation Procedures

The firm should have clearly set down procedures for the circumstances in which they are going to seek external advice from consultants, in particular the use of EQCRs in situations where there is a threat to independence and in relation to Public Interest clients. All staff and subcontractors should be aware of what these are.

ISQC 1 specifies that the responsibility for consultation rests with the engagement partner. He

must be satisfied that appropriate consultation has been sought and that the results have been agreed with the party
consulted. The conclusion must be implemented and all discussions documented.

The individual undertaking the annual ISQC 1 review should review the guidance given on consultation and ensure that it is suitable. This issue is particularly important where there are a large number of staff. The reviewer should then consider when undertaking the review whether consultation has taken place wherever necessary.