

Implementation Guide to SQC 1



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Implementation Guide to SQC 1

Quality Control for Firms that Perform
Audits & Reviews of Historical Financial
Information and Other Assurance
& Related Services Engagements



Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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FOREWORD

With the desire to be reckoned among the best in the world and be accepted globally, the auditing profession in India too is ready to undergo the painstaking processes of learning, unlearning and re-learning all through. To assume the critical responsibility of equipping the members with the internationally benchmarked technical knowledge and skills in the area of auditing and related services, essential to discharge their professional responsibilities, the Auditing and Assurance Standards Board (AASB), as a top priority, has undertaken its ambitious project of convergence with the International Standards issued by the International Auditing and Assurance Standards Board. Pursuant to the convergence process, the Institute had issued in 2007, a mother Standard on Quality Control (SQC) 1, "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements". The standard is a pre-requisite for the convergence process.

Though the standard reiterates albeit in details the fundamental principles of controlling quality of work in audit firms, this Implementation Guide, I am sure would enhance the acceptability of SQC 1 and help easier implementation of the same even at grass roots level.

With more and more internationally benchmarked auditing standards in the pipeline, I eagerly look forward to such Implementation Guides from the Board.

New Delhi
April 10, 2008

Ved Kumar Jain
President, ICAI

PREFACE

The Council of the Institute of Chartered Accountants of India (ICAI) issued the Standard on Quality Control (SQC) 1, “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements”, which is a mother Standard for all other Standards and is an all pervasive Standard in respect of quality control. The Standard is recommendatory from April 1, 2008 and mandatory from April 1, 2009. As the name suggests, the SQC 1 contains extensive requirements in relation to establishment and maintenance of a system of quality control (QC) in the audit firms as well as even for sole practitioners. The important elements of a system of quality control discussed by the Standard include Elements of a System of Quality Control, Leadership Responsibilities for Quality Within the Firm, Ethical Requirements - Independence, Acceptance and Continuation of Client Relationships and Specific Engagements, Human Resources - Assignment of Engagement Team, Engagement Performance - Consultation, Differences of Opinion, Engagement Quality Control Review and Documentation of the Engagement Quality Control Review - Engagement Documentation.

As a measure to cement the technical knowledge enshrined in the Standard and also to pave way for its easier implementation and greater acceptance among the membership at large, the Board has brought out this implementation guidance. This Guide provides a set of illustrative policies that an audit firm may adopt, with or without modification. This Guide also encourages the firms to tailor their QC policies to make them relevant according to their size, composition, number and nature of employed or contracted professionals, services rendered, kind of clientele, etc. The Annexures to this Implementation Guide provide the illustrative forms, checklists and templates that a firm may adopt, with or without modification, such as, annual firm personnel independence confirmation, model independence policies, client/engagement acceptance and continuance form, engagement planning memorandum template, engagement summary memorandum template, engagement QC review report template, Firm QC inspection checklist.

At this juncture, I wish to place my gratitude to CA. Khurshed Pastakia, FCA, who prepared the basic draft of the Implementation Guide. I am also grateful to all my colleagues at the Auditing and Assurance Standards Board for providing insights from their rich knowledge and experience for improving upon the draft Implementation Guide.

I also wish to place on record my appreciation for Shri Vijay Kapur, Secretary, Auditing and Assurance Standards Board and his team of officers, CA. Puja Wadhwa, Senior Assistant Director and CA. Savita Singhal, Executive Officer, for their efforts and valuable inputs in finalizing this Implementation Guide.

I am sure that this Implementation Guide will help the Chartered Accountant firms in implementing SQC 1 more effectively and also in ensuring the quality of the service provided by the Chartered Accountant Firms to its clients.

New Delhi
April 10, 2008

Harinderjit Singh
Chairman
Auditing and Assurance Standards Board

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Introduction

The Standard on Quality Control (SQC) 1, *Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information and Other Assurance & Related Services Engagements*, issued by the Institute of Chartered Accountants of India (ICAI), establishes standards for the process of quality control that encompasses an organisational structure of a Firm of professional accountants and the policies and procedures it establishes. The principles set out in SQC 1 apply in respect of the audits and reviews of historical financial information and other assurance and other related services engagements undertaken by the firm (hereinafter referred to as “the Firm”). The text of SQC 1 is given as Appendix to this Implementation Guide. The nature, extent and formality of a firm's quality control (QC) policies and procedures should be sufficiently comprehensive and suitably designed in relation to the firm's size, the nature and complexity of the Firm's practice and appropriate cost-benefit considerations.

The objective of a system of QC is to provide the firm with reasonable assurance that its personnel comply with applicable professional standards as well as the regulatory and legal requirements in addition to the firm's policies in respect of quality and ethics.

SQC 1 is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and any other relevant pronouncement of the Institute and relevant legal or regulatory requirement (together referred to as “the Code”). Accordingly, the Standard requires a firm to establish a system of quality control that includes policies and procedures addressing each of the following six elements:

- i) Leadership responsibilities for quality within the Firm;
- ii) Ethical requirements;
- iii) Acceptance and continuance of client relationships and specific engagements;
- iv) Human resources;
- v) Engagement performance; and
- vi) Monitoring.

The six elements of QC as mentioned in the preceding paragraph are interrelated. For example, for a firm to maintain ethical requirements that include independence, integrity, and objectivity, it must continually assess client relationships that affect policies and procedures related to acceptance and continuance of clients and engagements. Similarly, the human resources element of QC encompasses recruitment, capabilities and competence of Firm personnel which all affect policies and procedures related to engagement performance.

The Standard requires the firm's QC policies and procedures to be documented and communicated to its personnel. Such communication describes the QC policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its QC system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on QC matters.

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THE SIX ELEMENTS

Leadership Responsibilities for Quality within the Firm

A firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasise the firm's QC policies and procedures, and the requirement to:

- perform work that complies with professional standards and regulatory and legal requirements; and
- issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards high quality work. These actions and messages may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters or briefing memoranda. They may be incorporated in the firm's internal documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognise that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all engagements that the firm performs. Sufficient and appropriate experience and ability enables the person or persons responsible for the firm's QC system to identify and understand QC issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

Ethical Requirements

The fundamental principles of professional ethics include integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The conceptual approach to independence follows a threats and safeguards approach where threats to independence are identified, assessed, and appropriate safeguards applied to eliminate or reduce the threats to an acceptable level. Where it is not possible to reduce the threats to an acceptable level, the firm considers withdrawing from the engagement or from the client or both.

The generally recognised threats to independence¹ are:

- **Self-interest Threat**

A self interest threat arises when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include, direct financial interest or materially significant indirect financial interest in a client, loan or guarantee to or from the client, undue dependence on client for fees and hence concerns about losing the engagement, close business relationship with an audit client, potential employment with the client, etc.

- **Self-review Threat**

A self review threat arises when during a review of any judgment or conclusion reached in a previous audit or non-audit engagement, or when a member of the audit team was previously a director or a senior employee of the client.

¹ The explanation of the various threats to independence – self interest, self review, advocacy familiarity and intimidation – has been drawn from the Guidance Note on Independence of Auditors issued by the Institute of Chartered Accountants of India.

- **Advocacy Threat**

An advocacy threat arises when, in reality or in perception, an auditor promotes client's opinion where people may believe that the auditor's objectivity is getting compromised. For example, where the auditor deals with the shares or securities of the audited company or becomes client's advocate in litigation or third party disputes.

- **Familiarity Threat**

A familiarity threat is self evident and arises when auditors form relationships with the clients where they end up being too sympathetic to the interests of the client. For example, close relative of the audit team working in a senior position in the client company, former partner of the audit firm being a director or senior employee of the client, acceptance of gifts or hospitality from the client, etc.

- **Intimidation Threat**

An intimidation threat arises when an auditor is deterred from acting objectively with an adequate degree of professional skepticism. For example, threat of replacement over disagreements over application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees, etc.

The fundamental principles of ethics and independence are achieved by the actions of firm's leadership, education and training, monitoring policies and by establishing and implementing a process for dealing with non-compliance.

Acceptance and Continuance of Client Relationships and Specific Engagements

The acceptance and continuance QC policies in respect of client relationships and specific engagements are designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only where it:

- Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- Is competent to perform the engagement and has the capabilities, time and resources to do so; and
- Can comply with the ethical requirements.

The Firm should obtain such information as it considers necessary in each of the following circumstances:

- before accepting an engagement with a new client;
- when deciding whether to continue an existing client relationship and/or engagement; and
- when considering acceptance of a new engagement with an existing client.

Where quality control related issues have been identified, and yet the Firm decides to accept or continue the client relationship or a specific engagement, it should document how those issues were resolved.

Human Resources

Policies and procedures related to human resources normally address the following personnel issues:

- Recruitment;
- Performance evaluation;
- Capabilities;

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- Competence;
- Career development;
- Promotion;
- Compensation; and
- The estimation of personnel needs.

The Firm's policies and procedures should be designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the Firm or engagement partners to issue reports that are appropriate in the circumstances.

Engagement Performance

The Firm's policies and procedures should be designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the Firm or the engagement partner issues reports that are appropriate in the circumstances. This also includes establishing policies and procedures around matters such as consistency in the quality of engagement performance, supervision, review, consultation, engagement QC review, dealing with differences of opinion, and engagement documentation.

Monitoring

The Firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of QC are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the Firm's system of QC, including a periodic inspection of a selection of completed engagements, communicating deficiencies, and complaints and allegations.

APPLYING THE STANDARD TO FIRMS

Every chartered accountant firm is unique in terms of its size, composition, number and nature of employed or contracted professionals, services rendered, kind of clientele, etc. Accordingly, though the fundamental principles of quality control as enshrined in SQC 1 would be applicable to all the Firms equally, each firm would need to design suitable policies to implement the same having regard to the factors mentioned above.

SCOPE OF THE IMPLEMENTATION GUIDE

This Implementation Guide is aimed at providing a set of illustrative policies that a chartered accountant firm may adopt, with or without modification. As mentioned above, the Firm are encouraged to tailor their QC policies to make them relevant to their size, composition, number and nature of employed or contracted professionals, services rendered, kind of clientele, etc. The Implementation Guide, however, is not a substitute for the Standard on Quality Control (SQC) 1.

Introduction

The Implementation Guide also provides, in the Annexure, the following illustrative forms, checklists and templates that a chartered accountant firm may adopt, with or without modification:

- Annual firm personnel independence confirmation;
- Model independence policies;
- Client/engagement acceptance and continuance form;
- Engagement planning memorandum template;
- Engagement summary memorandum template;
- Engagement QC review report template; and
- Firm QC inspection checklist.

The policies and procedures established by firms and their updates need to be communicated in writing to and are binding on all their partners and professional staff, including articulated trainees. Further, the document(s) containing such policies and procedures should also be made available to a reviewer appointed by the ICAI's Peer Review Board.

ELEMENT 1

Leadership Responsibilities for Quality Within the Firm

- 1.1 The objective of this element of QC is to promote an internal culture based on the recognition that quality is essential in performing engagements. Policies and procedures should require the Firm's chief executive officer or the Firm's Managing Partner (MP) or equivalent (MP)² to assume ultimate responsibility for the Firm's system of QC. The promotion of a quality oriented internal culture depends on clear, consistent and frequent communications from the Firm's management emphasizing the Firm's QC policies and procedures.
- 1.2 The Firm satisfies this objective by establishing and maintaining the policies and procedures described below:

Policy 1

The Firm's MP assumes ultimate responsibility for the Firm's system of QC.

- 1.3 The Firm implements this policy through the following:
- Having the Managing Partner ultimately responsible for the design, implementation and operating effectiveness of the Firm's system of QC and for setting a tone that emphasizes the importance of quality.
 - Educating professional personnel³ about the requirements and importance of following a system of QC.
 - Informing personnel that failure to adhere to the Firm's policies and procedures regarding performance quality and commitment to ethical principles may result in disciplinary action.

Policy 2

Commercial considerations do not override the quality of the work performed.

- 1.4 The Firm implements this policy through the following procedures:
- Having the MP continually evaluate client relationships and specific engagements so that commercial considerations do not override the objectives of the system of QC.
 - Emphasizing to all personnel that fee considerations and scope of services should not infringe upon quality of work, documentation and other QCs.

² In the case of a sole proprietor, the latter is the Managing Partner.

³ The term "professional personnel" includes sole proprietor, partners, qualified chartered accountants (employed or contracted), others involved in performing audit and articled trainee.

Leadership Responsibilities for Quality Within the Firm

Policy 3

Responsibility for developing, implementing, and operating the Firm's QC system is assigned to personnel with sufficient and appropriate experience, authority, and ability.

- 1.5 The Firm implements this policy through the following procedures by having the MP designate a QC partner⁴ who is responsible for designing, implementing, and monitoring the Firm's QC system.

Policy 4

Performance evaluation, compensation, and advancement (including incentive systems) with regard to personnel demonstrate the Firm's overarching commitment to the objectives of the system of QC.

- 1.6 The Firm implements this policy through the following procedures:
- Designing and implementing performance evaluation and advancement systems that reward partners and staff involved in the accounting and auditing practice for the quality of their work and their compliance with professional standards.
 - Establishing a compensation system that provides incentives to accounting and auditing partners and senior-level employees for the quality of their accounting and auditing work. The compensation system does the following:
 - Takes into consideration the Firm's feedback based on monitoring results and peer reviews of the work performed.
 - Rewards partners and personnel for timely (a) identification of significant and emerging accounting and auditing issues and (b) consultation with Firm experts.

Policy 5

The Firm devotes sufficient and appropriate resources for the development, communication, and support of its QC policies and procedures.

- 1.7 The Firm implements this policy through the following procedures:
- Providing the designated QC partner with sufficient time, authority, and resources to develop, implement, and maintain the Firm's QC policies and procedures.
 - Providing the Firm's QC documentation to personnel when they are initially hired and reviewing the documentation with them.
 - Reviewing the Firm's QC policies and procedures with personnel at Firm training sessions or otherwise at least annually and updating them if required.

⁴ In case of sole proprietorship, the sole practitioner is the QC partner.

ELEMENT 2

Ethical Requirements

- 2.1 One of the objectives of this element of QC is to provide the Firm with reasonable assurance that it and its personnel comply with relevant ethical requirements. Ethical requirements relating to audits and reviews of historical financial information, and other attestation engagements are contained in the Code of Ethics issued by the Institute of Chartered Accountants of India as well as other relevant pronouncements of the Institute⁵. The other objective of this element of QC is that the personnel maintain independence in all required circumstances, perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.
- 2.2 The Firm satisfies these objectives by establishing and maintaining the policies and procedures described below:

Policy 1

Personnel adhere to ethical requirements such as those contained in the Code.

- 2.3 The Firm implements this policy through the following procedures:
- Having the MP designate an Independence and Ethics partner⁶ who is responsible for all aspects of the independence and ethics of the Firm's partners and professional staff. The designated Independence and Ethics partner may be the same individual as the designated QC partner if the Firm so desires.
 - Empowering the Independence and Ethics partner to perform such checks as may be required to ensure that all personnel respect and follow the independence and ethics policies of the Firm. Breaches, if any, should be promptly reported to the MP, who should take such disciplinary action as is warranted.
 - Establishing a system for identifying all services performed for each client and evaluating whether any of those services might impair independence.
 - Regularly consulting the ICAI's journal and website for information about changes in professional ethics and independence standards/requirements.
 - Ensuring that all professional personnel attend training in ethics and independence.

⁵ Attention of the members is, for instance, also invited to the Guidance Note on Audit of Banks issued by the Institute of Chartered Accountants of India.

⁶ In case of a sole proprietorship, the sole proprietor is the Independence and Ethics Partner.

Policy 2

The Firm establishes procedures to communicate independence requirements to Firm personnel and, where applicable, others subject to them.

- 2.4 The Firm implements this policy through the following procedures:
- Informing personnel of their responsibilities with regard to independence by doing the following on a timely basis:
 - Preparing and maintaining a list of entities with which Firm personnel and others, if any, are prohibited from having a financial or business relationship (such entities would normally include the Firm's audit and attest clients).
 - Making the list available to the concerned personnel so they may evaluate their independence.
 - Notifying personnel of changes in the list as soon as such changes occur.
 - Providing frequent reminders of professional responsibilities to personnel, such as avoiding behavior that might be perceived as impairing their independence or objectivity.

Policy 3

The Firm establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards.

- 2.5 The Firm implements this policy through the following procedures:
- Requiring the engagement partner to consider relevant information about client engagements, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements.
 - Providing training to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. Such training should include ICAI's responses to matters dealing with ethical conduct.
 - Accumulating and communicating relevant information to appropriate personnel so that the following can occur:
 - The Firm, the engagement partner, Firm personnel and others, if any, can readily determine whether they satisfy independence requirements.
 - The Firm can maintain and update information relating to independence.
 - The Firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the Independence and Ethics partner.
 - Requiring personnel to promptly report circumstances and relationships that create a threat to independence and independence breaches of which they become aware to the Independence and Ethics partner so that appropriate action can be taken.

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- Establishing criteria to determine the need for safeguards for engagements where the following have taken place:
 - The Firm's monitoring procedures or peer review has identified weaknesses in previous years.
 - The same senior personnel have been used for five years or more on an audit or attestation engagement.
 - The client pressurizes the engagement partner to take a particular position or an accounting or auditing issue.
- Promptly communicating identified breaches of these policies and procedures, and the required corrective actions, to the following personnel:
 - The engagement partner who, with the Firm, needs to address the breach.
 - The Independence and Ethics partner who should report the breaches to the MP for necessary action.
 - Other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action.
- Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the Firm that the required corrective actions have been taken.
- Having the Independence and Ethics partner, or an individual designated by him, periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the Firm's independence.
- Establishing additional procedures that provide safeguards when the Firm performs audit or other attest work for
 - a) significant clients or
 - b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment.
- Documenting the threats and the safeguards applied to eliminate or reduce them to an acceptable level in each instance.

Policy 4

The Firm withdraws from the engagement if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.

2.6 The Firm implements this policy through the following procedures:

- Consulting within the Firm, and with legal counsel and other parties if necessary, when the Firm believes that safeguards to reduce threats to independence to an acceptable level cannot be effectively applied.
- Withdrawing from the engagement if safeguards to reduce threats to independence to an acceptable level cannot be effectively applied.

Policy 5

The Firm obtains written confirmation, at least annually, of compliance with its policies and procedures on independence from all Firm personnel and others, if any, who are required to be independent.

2.7 The Firm implements this policy through the following procedures:

- Obtaining written representations from Firm personnel, upon hire and on an annual basis, stating that they have read the Firm's independence, integrity, and objectivity policies, understand the applicability of those policies to their activities, and have complied with the requirements of those policies since their last representation. Any exceptions should be declared by those making these representations.
- Reviewing these independence representations and resolving reported exceptions.
- Requiring the engagement partner to sign a step in the engagement program attesting to compliance with independence requirements that apply to the engagement.

Policy 6

The Firm establishes procedures for confirming the independence of another Firm that performs part of the engagement.

2.8 The Firm implements this policy through the following procedures:

- Using practice aids that prescribe the form and content of independence representations, and frequency with which they are to be obtained.
- Requiring that such representations be documented in the engagement working papers file.

Annexures A and B to this Implementation Guide contain illustrative annual firm personnel independence confirmation and illustrative independence policies, respectively.

ELEMENT 3

Acceptance and Continuance of Client Relationships and Specific Engagements

- 3.1 The objective of this element of QC is to provide the Firm with reasonable assurance that it will undertake or continue relationships and engagements only where it:
- Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
 - Is competent to perform the engagement and has the capabilities, time and resources to do so; and
 - Can comply with the ethical requirements.
- 3.2 The Firm satisfies this objective, with respect to the initial period for which the Firm is performing its service and other subsequent periods, by establishing and maintaining the policies and procedures described below:

Policy 1

The Firm evaluates factors that have a bearing on management's integrity and considers the risk associated with providing professional services in particular circumstances.

- 3.3 The Firm implements this policy through the following procedures:
- Informing Firm personnel of the Firm's policies and procedures for accepting and continuing clients.
 - Obtaining and evaluating relevant information such as the following before accepting or continuing a client:
 - The nature and purpose of the services to be provided and management's understanding thereof.
 - The identity of the client's principal owners, key management, related parties, and those charged with its governance.
 - Information obtained from internet searches on the client and its associates.
 - Information obtained from inquiries of third parties who have business relationships with the entity about management's reputation and integrity.
 - The nature of the client's operations, including its business practices, from sources such as annual reports, interim financial statements, reports to and from regulators, income tax returns, credit reports and websites.
 - Information concerning the attitude of the client's principal owners, key management, and those charged with its governance toward such matters as aggressive interpretation of accounting standards and internal control over financial reporting.

Acceptance and Continuance of Client Relationships and Specific Engagements

- Evaluating the risk of providing services for the following engagements:
 - Engagements for entities operating in highly specialized or regulated industries, (including financial institutions, technology companies, and governmental entities) or in industries or environments that are traditionally perceived to be operated in a manner that is less than ethical.
 - Engagements where the Firm has concerns about the attitude of the client's principal owners, key management personnel and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
 - Engagements where the client is aggressively concerned with maintaining the Firm's fees as low as possible.
 - Engagements where there is an inappropriate limitation in the scope of work.
 - Engagements where there are indications that the client might be involved in money laundering or other criminal activities.
 - Engagements that require an inordinate amount of time to complete relative to the available resources of the Firm.
- Communicating with the predecessor auditor when required or recommended by professional standards. This communication also includes inquiries regarding the nature of objections, if any.
- Conducting a background checks of the business, its officers, and the person(s) in question, and evaluating the information obtained regarding management's integrity. Background checks are conducted when the Firm is unable to obtain sufficient information about the prospective client after taking the steps described above, or there is an indication that management or someone affiliated with the prospective client may be less than reputable.
- Evaluating the risk of providing services to significant clients or to other clients for which the Firm's objectivity or the appearance of independence may be impaired. In broad terms, the significance of a client to a Firm refers to relationships that could diminish an auditor's objectivity and independence in performing attest services. In determining the significance of a client, the Firm considers (a) the amount of time the partner devotes to the engagement, (b) the effect on the partner's stature within the Firm as a result of service to the client, (c) the manner in which the partner is compensated, and (d) the effect that losing the client would have on the partner and the Firm.

Policy 2

The Firm evaluates whether the engagement can be completed with professional competence; undertakes only those engagements for which the Firm has the capabilities, resources, and professional competence to complete; and evaluates, at the end of specific periods or upon occurrence of certain events, whether the relationship should be continued.

3.4 The Firm implements this policy through the following procedures:

- Evaluating whether the Firm has obtained or can reasonably expect to obtain the knowledge and expertise necessary to perform the engagement, including relevant regulatory or reporting requirements.
- Evaluating whether the following are in place:
 - The Firm has sufficient personnel with the necessary capabilities and competence.

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- Specialists are available if needed.
- Individuals meeting the criteria and eligibility requirements to perform an engagement QC review are available, when needed, whether internally or externally.
- The Firm is able to complete the engagement within the agreed reporting deadline.
- Specifying conditions that trigger the requirement to re-evaluate a specific client or engagement. The following are examples of such conditions:
 - Significant changes in the client, such as a major change in senior client personnel, ownership, advisers, the nature of its business, or the financial stability of the client.
 - Changes in the nature or scope of the engagement, including requests for additional services.
 - Changes in the composition of the Firm, such as the loss of and inability to replace key personnel who are particularly knowledgeable about a specialized industry.
 - The Firm's decision to discontinue services to clients in a particular industry.
 - The existence of conditions that would have caused the Firm to reject the client or engagement had such conditions existed at the time of the initial acceptance.
 - The client's delinquency in paying fees. (This may also affect the Firm's independence.)
 - Engagements for entities operating in highly specialized or regulated industries, such as financial institutions, technology companies and governmental entities.
 - Engagements for entities in which there may be substantial doubt about the entity's ability to continue as a going concern.
 - Engagements in which the client has ignored prior recommendations, such as those that address deficiencies in internal control.
- Obtaining relevant information to determine whether the relationship should be continued and establishing a frequency for evaluations (for example, continuance decisions are made at least annually).
- Evaluating the information obtained regarding acceptance or continuance of the client or engagement through the following activities:
 - The engagement partner assesses the information obtained about the client or the specific engagement, including information about the significance of the client to the Firm, and makes a recommendation about whether the client or engagement should be accepted or continued.
 - The engagement partner completes a client acceptance form and submits it to the MP for approval.
 - The engagement partner signs a step in the planning program noting consideration of client continuance and completes a form documenting the rationale and conclusion regarding client continuance if conditions exist that trigger the requirement to reevaluate a client or engagement between annual audits.
 - The MP assesses and approves the recommendation made by the engagement partner. If the MP recommends not accepting a client or discontinuing a client relationship, the MP discusses reasons for the acceptance or continuance decision with the other partners.
- Establishing procedures for dealing with information that would have caused the Firm to decline the engagement if the information had been available earlier.

Acceptance and Continuance of Client Relationships and Specific Engagements

Policy 3

The Firm obtains an understanding with the client regarding the services to be performed.

- 3.5 The Firm implements this policy by requiring that, for all engagements, the Firm prepare a written engagement letter documenting the understanding with the client and obtain the client's signature on that letter, thus minimizing the risk of misunderstanding regarding the nature, scope, and limitations of the services to be performed.

Policy 4

The Firm establishes procedures on withdrawal from an engagement or from both the engagement and the client relationship.

- 3.6 The Firm implements this policy through the following procedures:
- 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.
 - Considering whether there is a professional, regulatory, or legal requirement for the Firm to remain in place or for the Firm to report to regulatory authorities its withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal.
 - 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, if the Firm determines that it is appropriate to withdraw.

Policy 5

The Firm documents how issues relating to acceptance or continuance of client relationships and specific engagements were resolved.

- 3.7 The Firm implements this policy by documenting, in a memorandum to the engagement working papers file, significant issues, consultations, conclusions, and the basis for the conclusions relating to acceptance or continuance of client relationships and specific engagements. Alternatively, such memoranda may be preserved at a common location for the Firm as a whole e.g. in the custody of the designated QC partner.

Annexure C to this Implementation Guide contains illustrative client/engagement acceptance and continuance form.

ELEMENT 4

Human Resources

- 4.1 The objective of this element of QC is to provide the Firm with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the Firm or engagements partners to issue reports that are appropriate in the circumstances. Attributes or qualities that enhance the competency of personnel who perform, supervise, or review work include integrity, objectivity, intelligence, judgment, experience and motivation. The Firm satisfies this objective by establishing and maintaining the policies and procedures below:

Policy 1

Personnel who are hired possess the characteristics that enable them to perform competently.

- 4.2 The Firm implements this policy through the following procedures:
- Designating an individual in the Firm to be responsible for the following activities:
 - Managing the human resources function.
 - Evaluating the Firm's personnel needs by considering factors such as existing clientele, anticipated growth, personnel turnover, and individual advancement.
 - Developing criteria for determining which individuals will be involved in the interviewing and hiring process.
 - Establishing an understanding among the partners about the qualifications, attributes, achievements, and experiences desired in entry-level and experienced personnel.
 - Setting guidelines for the additional procedures to be performed when hiring experienced personnel, such as performing background checks and inquiring about any outstanding regulatory actions.

Policy 2

The Firm determines capabilities and competencies required for an engagement, including those required of the engagement partner.

- 4.3 The Firm implements this policy by specifying the competencies that the engagement partners of the Firm's accounting, auditing, and attestation engagements should possess. These competencies include having an understanding of the following:
- The role of the Firm's system of QC and the Code of Ethics issued by the Institute in ensuring the integrity of the accounting, auditing, and attest functions to users of reports.
 - The performance, supervision, and reporting aspects of the engagement, which ordinarily are gained through training or participation in similar engagements.

Human Resources

- The industry in which the client operates, including its organization and operating characteristics, sufficient to identify areas of high or unusual risk associated with the engagement and to evaluate the reasonableness of industry-specific estimates.
- The professional standards applicable to the engagement and the industry in which the client operates. Such standards include accounting, auditing, and attestation standards, relevant to the accounting and auditing framework applicable to the engagement as well as rules and regulations issued by applicable regulators.
- The skills that contribute to sound professional judgment, including the ability to exercise professional skepticism.
- How the auditee uses information technology and the manner in which information systems are used to record and maintain financial information.

Policy 3

The Firm determines the capabilities and competencies possessed by personnel.

- 4.4 The Firm implements this policy through the following procedures:
- Establishing criteria for evaluating personal characteristics such as integrity, competence, and motivation.
 - Evaluating personnel at least annually to determine their capabilities and competencies.

Policy 4

The Firm assigns the responsibility for each engagement to an engagement partner.

- 4.5 The Firm implements this policy through the following procedures:
- Assigning responsibility for each engagement to an engagement partner who has the appropriate capabilities, competence, authority, and time to perform the role.
 - Communicating the identity and role of the partner to client's management and those charged with governance.
 - Monitoring the workload and availability of engagement partners to enable these individuals to have sufficient time to adequately discharge their responsibilities.

Policy 5

The Firm assigns personnel (including partners) based on the knowledge, skills, and abilities required in the circumstances and the nature and extent of supervision needed.

- 4.6 The Firm implements this policy through the following procedures:
- Designating an appropriate person to be responsible for assigning personnel to engagements based on such factors as the following:
 - Engagement type, size, significance, complexity, and risk profile.

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- Specialized experience and expertise required for the engagement and competencies gained through prior experience.
- Personnel availability.
- Timing of the work to be performed.
- Continuity and rotation of personnel.
- Opportunities for on-the-job training.
- Situations for which independence or objectivity concerns exist.
- Designating a partner to be responsible for partner and manager assignments.
- Requiring approval of partner and manager assignments from the MP in the case of high-risk or significant client engagements.

Policy 6

Personnel participate in general and industry-specific continuing professional education and development (CPED) activities that enable them to accomplish assigned responsibilities.

4.7 The Firm implements this policy through the following procedures:

- Assigning responsibility to a partner to maintain a CPED program that does the following:
 - Requires personnel, including articled trainees, to participate in CPED programs in accordance with Firm guidelines and in subjects that are relevant to their responsibilities.
 - Takes into account the requirements of the ICAI and other regulatory agencies in establishing the Firm's CPED requirements.
 - Provides CPED course materials to, and maintains records of completed CPED for, professional personnel.
 - Provides an orientation and training program for new hires, including articled trainees.
- Encouraging participation by personnel at each level in the Firm in other CPED activities such as completing external CPED programs including self-study courses, becoming members of professional organizations, serving on professional committees, writing for professional publications, and speaking to professional groups.
- Communicating and distributing to personnel, including articled trainees, when applicable, changes in accounting, auditing, attestation, and QC standards, as well as independence requirements and the Firm's guidance with respect to those standards and requirements.

Policy 7

Personnel selected for advancement have the qualifications to fulfill the responsibilities they will be called on to assume.

4.8 The Firm implements this policy through the following procedures:

- Assigning responsibility to partners to jointly make advancement and termination decisions. Such responsibilities include the following:

Human Resources

- Establishing criteria for evaluating personnel at each professional level and for advancement to the next higher level of responsibility. Such criteria give recognition and reward to the development and maintenance of competence and commitment to ethical principles.
- Informing Firm personnel about the criteria for advancement to the next higher level of responsibility.
- Designating personnel responsible for preparing evaluations and determining when they should be prepared.
- Informing personnel that failure to adhere to the Firm's policies and procedures regarding performance quality and commitment to ethical principles may result in disciplinary action.
- Using forms that include the applicable qualifications when evaluating the performance of personnel. Such forms contain qualifications related to performance quality and adherence to ethical principles.
- Reviewing evaluations on a timely basis with the individual being evaluated.
- Counselling personnel regarding their progress and career opportunities by doing the following:
 - Evaluating employees annually and at the end of each assignment lasting four weeks or longer to provide feedback on performance.
 - Summarizing and reviewing with personnel annually the evaluation of their performance, including an assessment of their progress with the Firm.
- Considerations include past performance, future objectives of the individual and the Firm, the individual's assignment preferences, and career opportunities.
- Evaluating partners periodically by means of counselling, peer evaluation, or self-appraisal, as appropriate.

ELEMENT 5

Engagement Performance

- 5.1 The objective of this element of QC is to provide the Firm with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the Firm or the engagement partner issues reports that are appropriate in the circumstances.

Policy 1

Planning for engagements meets professional, regulatory, and the Firm's requirements.

- 5.2 The Firm implements this policy by maintaining and providing personnel with the Firm's practice aids that prescribe the factors the engagement team should consider in the planning process for an engagement and the extent of documentation of those considerations. Planning considerations may vary depending on the size and complexity of the engagement.
- 5.3 Planning generally includes the following activities:
- Assigning responsibilities to appropriate personnel during the planning phase.
 - Developing or updating background information on the client and the engagement.
 - Considering client significance to the Firm.
 - Developing a planning document that includes the following:
 - Proposed work programs tailored to the specific engagement.
 - Staffing requirements and the need for specialized knowledge.
 - Consideration of the economic conditions affecting the client and its industry and their potential effect on the conduct of the engagement.
 - The risks, including fraud considerations, affecting the client and the engagement and how the risks may affect the procedures performed.
 - A budget that allocates sufficient time for the engagement to be performed in accordance with professional standards and the Firm's QC policies and procedures.

Policy 2

The engagement is performed, supervised, documented, reported and communicated in accordance with the requirements of professional standards, applicable regulators, and the Firm.

- 5.4 The Firm implements this policy through the following procedures:
- Ensuring that relevant auditing standards such as those dealing with risk assessment, fraud, etc., that deal with the planning phase of an engagement are duly complied with.

Engagement Performance

- Providing adequate supervision during the course of an engagement, including briefing the engagement team on the objectives of their work. The training, ability, and experience of the personnel are considered when assigning supervisors to the engagement.
- Requiring that a written work program be used and monitored for all engagements.
- Requiring that there is consistency in the quality of engagement performance. Consistency may be accomplished through written or electronic manuals, software tools, checklists, templates, models or other forms of standardized documentation, and industry or subject matter-specific guidance material.
- Requiring that a suitable audit summary memorandum is documented and kept among the engagement working papers to provide a history of the planned risks (including fraud risks), by what audit procedures those risks were mitigated, conclusions on controls and substantive testing, and whether the extent and quality of audit evidence examined supports the audit opinion.
- Addressing significant issues and newly identified risks arising during the engagement, considering their significance, and appropriately modifying the planned approach.
- Adhering to the guidelines set forth by the Firm for the form and content of documentation of the work performed and conclusions reached. Such documentation includes standardized forms, checklists, and questionnaires used in the performance of engagements and explanations, when required, of how the Firm integrates such aids into engagements.
- Requiring engagement documentation in accordance with professional standards, applicable regulatory requirements, and the Firm's policies.

Policy 3

Qualified engagement team members review work performed by other team members on a timely basis.

- 5.5 The Firm implements this policy by adhering to the following guidelines established by the Firm regarding review of the documentation of the work performed and conclusions reached, the financial statements and reports, and documentation of the review process:
- All reviewers have appropriate experience, competence, and responsibility.
 - For each engagement, there exists evidence of appropriate review of documentation of the work performed, conclusions reached, the financial statements, and the report.
 - Engagement documentation is reviewed to determine whether the following have occurred:
 - The work has been performed in accordance with professional standards and regulatory and legal requirements.
 - Significant findings and issues have been raised for further consideration.
 - Appropriate consultations have taken place, and the process and resulting conclusions have been documented and implemented.
 - The nature, timing, and extent of work performed are appropriate and do not need revision.
 - The work performed supports the conclusions reached and is appropriately documented.

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- The evidence obtained in support of financial statement assertions and disclosures is sufficient and appropriate to support the report.
- The objectives of the engagement procedures have been achieved.

Policy 4

Engagement teams complete the assembly of final engagement files on a timely basis.

5.6 The Firm implements this policy by completing the assembly of final engagement files in accordance with professional standards and applicable regulatory requirements, if any.

Policy 5

The Firm maintains the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation.

- 5.7 The Firm implements this policy through the following procedures:
- Establishing and applying controls to accomplish the following:
 - Clearly determine when and by whom engagement documentation was prepared and 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 electronic means.
 - Prevent unauthorized changes to the engagement documentation.
 - Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.
 - Implementing procedures for properly distributing engagement documentation materials to engagement teams at the start of the engagement, preparing engagement documentation during the engagement, and assembling final documentation at the end of the engagement.
 - Implementing procedures to restrict access to, and enable proper distribution and confidential storage of, hardcopies of the engagement documentation.
 - Requiring the use of passwords by engagement team members and data encryption to restrict access to electronic engagement documentation to authorized users.
 - Implementing appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
 - Implementing procedures regarding original paper documents that have been electronically scanned or otherwise copied to another media that accomplish the following:
 - Generate copies that contain the entire content of the original paper documentation, including manual signatures, cross-references, and annotations.
 - Integrate the copies into the engagement files, including indexing and signing off on the copies as necessary.
 - Enable the copies to be retrieved and printed as necessary.

Policy 6

The Firm retains engagement documentation for a period of time sufficient to meet the needs of the Firm, professional standards, laws, and regulations.

- 5.8 The Firm implements this policy through the following procedures:
- Retaining engagement documentation for a period of time sufficient to meet the requirements of the applicable professional standards, laws and regulations.
 - Establishing procedures that:
 - Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation because the underlying technology may be upgraded or changed over time;
 - Provide, where necessary, a record of changes made to engagement documentation after the assembly of engagement files has been completed; and
 - Enable authorized external parties to access and review specific engagement documentation for QC or other purposes.

Policy 7

The Firm requires that consultation takes place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope, and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.

- 5.9 The Firm implements this policy through the following procedures:
- Consulting with those having appropriate knowledge, authority, and experience within the Firm (or, where applicable, outside the Firm) on significant technical, ethical, and other matters. The Firm uses advisory services provided by other Firms, professional and regulatory bodies, and commercial organizations that provide such services. Before using such services, the Firm evaluates whether the external provider is qualified for that purpose.
 - Informing personnel of the Firm's consultation policies and procedures.
 - Requiring sufficiently experienced engagement team members to identify matters for consultation or consideration during the engagement.
 - Requiring consultation in specialized areas or situations with appropriate individuals within and outside the Firm when matters such as the following arise:
 - The application and interpretation of technical pronouncements.
 - Industries with special accounting, auditing, or reporting requirements.
 - Emerging practice problems.
 - Choices among alternative generally accepted accounting principles.
 - Re-issuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the date a report was issued.

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- Filing requirements of regulators.
- Meetings with regulators at which the Firm is to be called on to support the application of generally accepted accounting principles or generally accepted auditing standards that have been questioned.
- Providing all professional personnel with access to adequate and current reference materials including all relevant facts, circumstances, the professional literature used, and conclusions reached in the engagement documentation of the work performed and conclusions reached.
- Documenting 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. If there is an unresolved disagreement, an outside source may be consulted to assist in determining the appropriate application of accounting or auditing principles.

Policy 8

The Firm deals with and resolves differences of opinion, documents and implements conclusions reached, and does not release the report until the matter is resolved.

5.10 The Firm implements this policy through the following procedures:

- Requiring that all differences of professional judgment among members of an engagement team be resolved by the engagement and the QC partners, and the MP if necessary, and that the report not be released until the matter is resolved.
- Requiring that conclusions reached are appropriately documented. If members of the team continue to disagree with the resolution, they may disassociate themselves from the resolution of the matter and may document that a disagreement continues to exist.

Policy 9

The Firm has criteria for determining whether an engagement QC review should be performed, evaluates all engagements against the criteria, performs an engagement QC review for all engagements that meet the criteria, and completes the review before the report is released.

5.11 The Firm implements this policy through the following procedures:

- Establishing criteria such as the following:
 - The identification of unusual circumstances or risks in an engagement or class of engagements as determined by the engagement partner or QC partner.
 - An engagement QC review is required by law or regulation.
- Evaluating all engagements against the criteria and documenting the evaluation.
- Performing and documenting an engagement QC review for all engagements that meet the criteria.

Policy 10

The Firm establishes procedures addressing the nature, timing, extent, and documentation of the engagement QC review.

5.12 The Firm implements this policy through the following procedures:

- Establishing procedures addressing the nature, timing, and extent of the review. The Firm's procedures require that for audit and attestation engagements, the engagement QC reviewer do the following:
 - Discuss significant accounting, auditing, and financial reporting issues with the engagement partner, including matters for which there has been consultation.
 - Discuss with the engagement partner the engagement team's identification and audit of high-risk assertions, transactions and account balances.
 - Confirm with the engagement partner that there are no significant unresolved issues.
 - Review selected working papers relating to the significant judgments the engagement team made and the conclusions they reached.
 - Review documentation of the resolution of significant accounting, auditing, or financial reporting issues, including documentation of consultation with Firm personnel or external sources.
 - Review the summary of corrected and uncorrected misstatements.
 - Review other engagement documentation to the extent considered necessary.
 - Read the financial statements and the report and consider whether the report is appropriate.
 - Complete the review before the release of the report.
- Resolving conflicting opinions between the engagement partner and the engagement QC reviewer regarding significant matters. The policy requires documentation of the resolution of conflicting opinions before the release of the audit report.
- Implementing procedures addressing documentation by the engagement QC reviewer.
 - The procedures required by the Firm's policies on engagement QC review have been performed.
 - The engagement QC review has been completed before the report is released.
 - No matters have come to the attention of the engagement QC reviewer that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Policy 11

The Firm establishes criteria for the eligibility of engagement QC reviewers.

5.13 The Firm implements this policy by establishing the following criteria:

- An engagement QC reviewer:
 - Is selected by the QC partner or the MP.
 - Has sufficient technical expertise and experience.

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- Carries out responsibilities with objectivity and due professional care without regard to the relative positions of the audit engagement partner and the engagement QC reviewer.
- Meets the independence requirements relating to the engagements reviewed, even though the engagement QC reviewer is not a member of the engagement team.
- Does not make decisions for the engagement team or participate in the performance of the engagement except that the engagement partner may consult the engagement QC reviewer at any stage during the engagement.
- When the Firm does not have suitably qualified personnel to perform the engagement QC review, the Firm contracts with a suitably qualified external person to perform the engagement QC review.

Annexures D and E to this Implementation Guide contain illustrative engagement planning and illustrative engagement summary memorandum, respectively.

ELEMENT 6

Monitoring

6.1 The objective of this element of QC is to provide the Firm with reasonable assurance that its policies and procedures relating to the system of QC are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the Firm's system of QC, including a periodic inspection of a selection of completed engagements. The Firm satisfies this objective by establishing and maintaining the policies and procedures below.

Policy 1

The Firm assigns responsibility for the monitoring process, including performance, to a partner or competent individual.

6.2 The Firm implements this policy through the following procedures:

- The MP designates a QC partner who is responsible for designing, implementing and monitoring the Firm's QC system.
- The QC partner's responsibilities include ensuring that the Firm's QC policies and procedures and its methodologies remain relevant and adequate. Factors to be considered include the following:
 - Changes in professional standards or other regulatory requirements applicable to the Firm's practice.
 - Results of inspections and peer review.
 - Review of litigation and regulatory enforcement actions against the Firm and its personnel.
 - Determining whether personnel have been appropriately informed of their responsibilities for maintaining the Firm's standards of quality in performing their duties.
- Identifying the need to do the following:
 - Revise policies and procedures related to QC because they are ineffective or inappropriately designed.
 - Improve compliance with Firm policies and procedures related to QC.

Policy 2

The Firm performs monitoring procedures that are sufficiently comprehensive to enable the Firm to assess compliance with all applicable professional standards and the Firm's QC policies and procedures.

6.3 The Firm implements this policy through the following procedures:

- Designating one or more partners to be responsible for performing an annual inspection. Inspection procedures include reviewing a cross-section of engagements using the following criteria in selecting

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engagements:

- Significant specialized industries with emphasis on high-risk engagements.
 - First-year engagements.
 - Significant client engagements.
 - Level of service performed (that is, audit and attest, review, or compilation).
 - Engagements performed by all partners.
 - Engagements for which there have been complaints or allegations from Firm personnel, clients, or other third parties that the work performed by the Firm failed to comply with professional standards, regulatory requirements, or the Firm's system of QC.
 - Engagements in which there were significant disagreements between the quality review partner and the engagement partner.
- Establishing an approach and timetable for performing the inspection procedures and determining the forms and checklists to be used during the inspection and the extent of documentation required.
 - Deciding how long to retain detailed inspection documentation (as opposed to summaries).
 - Reviewing correspondence regarding consultation on independence, integrity, and objectivity matters and acceptance and continuance decisions.
 - Reviewing the resolution of matters reported by professional personnel regarding independence to determine that matters have been appropriately considered and resolved.
 - Selecting a sample of engagements for review to determine compliance with the Firm's QC policies and procedures, re-evaluating that selection throughout the process, and reviewing the selected engagements.
 - Preparing a summary inspection report for the partner or management group that evaluates the overall results of the inspection and sets forth any recommended changes that should be made to the Firm's policies and procedures.
 - Reviewing the recommended corrective actions and reaching final conclusions about the actions to be taken.
 - Following up on planned corrective actions to determine whether those actions were taken and whether they achieved the intended objective(s).
 - Reviewing and evaluating Firm practice aids, such as audit programs, forms, and checklists, and considering whether they reflect the most recent professional pronouncements.
 - Providing information during staff meetings regarding new professional standards, regulatory requirements, and the related changes that should be made to Firm practice aids.
 - Reviewing, or designating a manager-level individual to be responsible for reviewing the CPED policies and procedures to determine whether they are appropriate, effective, and meet the needs of the Firm.
 - Reviewing, or designating a manager-level individual to review summaries of the CPED records of the Firm's professional personnel to evaluate each individual's compliance with the CPED requirements of the ICAI.
 - Reviewing other administrative and personnel records pertaining to the QC elements.

Monitoring

- Soliciting information from the Firm's personnel during staff meetings regarding the effectiveness of training programs.

Policy 3

The Firm communicates (a) deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action to relevant engagement partners and other appropriate personnel and (b) the results of the monitoring of its QC system process to relevant Firm personnel at least annually.

6.4 The Firm implements this policy through the following procedures:

- Discussing the engagement related observations of the inspection with the engagement partner and seeking his concurrence therewith.
- Preparing a summary report that evaluates the overall results of the monitoring and sets forth any recommended changes that should be made to the Firm's policies and procedures.
- Reviewing the recommended corrective actions and reaching final conclusions as to the actions to be taken.
- Communicating to all professional personnel the deficiencies noted and the related changes in QC procedures.
- Following up on planned corrective actions to determine whether those actions were taken and whether they achieved the intended objective(s).

Policy 4

The Firm deals appropriately with complaints and allegations.

6.5 The Firm implements this policy through the following procedures:

- Having the MP inform personnel that they may raise any concerns regarding complaints or allegations about non-compliance with professional standards, regulatory and legal requirements, or the Firm's system of QC with him without fear of reprisals.
- Having a partner who is not otherwise involved in the engagement investigate the following:
 - Complaints and allegations that the work performed by the Firm fails to comply with professional standards and regulatory and legal requirements.
 - Allegations of non-compliance with the Firm's system of QC.
 - Deficiencies in the design or operation of the Firm's QC policies and procedures, or non-compliance with the Firm's system of QC by an individual or individuals, as identified during the investigations into complaints and allegations.
- Documenting complaints and allegations and the responses to them.

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Policy 5

The Firm prepares appropriate documentation to provide evidence of the operation of each element of its system of QC.

- 6.6 The Firm implements this policy by designing its summary monitoring report to provide evidence of the operation of each element of its system of QC, including the following:
- Monitoring procedures, including the procedure for selecting completed engagements to be inspected.
 - A record of the evaluation of the following:
 - Adherence to professional standards and regulatory and legal requirements.
 - Whether the quality control system has been appropriately designed and effectively implemented.
 - Whether the Firm's QC 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 effects, and the basis for determining whether further action is necessary and what that action should be.

Policy 6

The Firm retains documentation providing evidence of the operation of the system of QC for an appropriate period of time.

- 6.7 The Firm implements this policy by requiring retention of the summary monitoring report for a period of time sufficient to meet the Firm's peer review or other regulatory requirements.

Policy 7

The Firm, in addition to the internal monitoring process described in policies 1 to 6 above, shall strive to get itself “peer reviewed” by an external reviewer under the “Peer Review” process established by the ICAI.

- 6.8 The Firm implements this policy by voluntarily offering itself for peer review by application to the Peer Review Board of the ICAI if it has not already been selected.

Annexure E to this Implementation Guide contains illustrative firm quality control inspection checklist.

Annexures

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Annexure I

Illustrative Annual Firm Personnel Independence Confirmation

Annexure II

Illustrative Independence Policies

Annexure III

Illustrative Client/Engagement Acceptance and Continuance Form

Annexure IV

Illustrative Engagement Planning Memorandum

Annexure V

Illustrative Engagement Summary Memorandum

Annexure VI

Illustrative Firm Quality Control Inspection Checklist

Illustrative Annual Firm Personnel Independence Confirmation

INSTRUCTIONS

All partners and employees are required to complete a confirmation regarding their independence.

This declaration covers the period from _____ (date) to _____ (date). This confirmation should reach _____ (MP) on or before _____ (date).

DETAILED DECLARATIONS

Make the declarations below. If you do not agree, explain in a separate annexure why the 'disagree' responses are not independence-impairing situations.

#	Declaration	Agree	Disagree
1.	During the period, I or my immediate family members ⁷ did not have investments in an entity ⁸ to which I rendered any assurance services.		
2.	During the period, I or my immediate family members did not have a borrowing from an entity to which I rendered any assurance services.		
3.	During the period, I or my immediate family members did not give a loan to an entity to which I rendered any assurance services or to an officer, director, or major shareholder of that entity.		
4.	During the period, I and my immediate family members were not an executor, administrator, or trustee of a trust/estate, and have authority to make investment decisions for the trust/estate, that had an investment in an entity to which I rendered any assurance services.		
5.	During the period, I and my immediate family members were not associated with an entity to which I rendered any assurance services, in an accounting or financial reporting oversight role.		

⁷ "Immediate family members" means the partner or employee's spouse and dependents.

⁸ "Entity", wherever referred to in this table, includes its holding and subsidiary companies.

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6.	During the period, I and my immediate family members did not obtain a new, or make significant changes to an existing, insurance product of any kind, from an insurance company to which I rendered any assurance services.		
7.	During the period, to the best of my knowledge, I and my immediate family members did not have a business relationship with or joint investment (e.g, partnership interests) in (a) an entity to which I rendered any assurance services or with (b) an officer, director, or major shareholder of that entity.		
8.	During the Period, I have advised the Independence and Ethics Partner of the Firm if I have been engaged in employment negotiations with an entity to which I rendered any assurance services.		

Explain below why, in your opinion, a 'disagree' response to any of the declarations above is not an independence - impairing situation:

REPRESENTATION

FOR THE PERIOD FROM _____ TO _____

By submitting this independence confirmation, I represent that:

- I have read and understand the Firm's independence policies applicable to me and my immediate family, and understand the applicable independence restrictions.
- To the best of my knowledge, I have provided accurate and complete responses to the items in this confirmation. Except as otherwise indicated by my answers above, I have complied with the applicable independence policies, including those policies that pertain to my immediate family.
- I understand that it is my responsibility to comply with the Firm's independence policies and to seek appropriate consultation within the firm when I have any questions relating to my compliance with the Firm's independence policies.
- I understand that my responses are an element of the Firm's independence quality control system and are subject to review by firm management. Further, I understand I will be subject to disciplinary action if I do not cooperate or comply with Firm's independence policies.

Sign _____ Office _____

Name _____ Date _____

Illustrative Independence Policies

(Name of Firm)

Application

1. These Independence Policies (“Policy” or “Policies”) are applicable, without exception, to all partners and employees (“firm personnel”) of: _____ (“the Firm”).

THE CONCEPTUAL APPROACH

2. If a Policy addresses a specific situation or relationship, such policy should be followed. Where the Policies do not cover a particular circumstance, the conceptual approach requires that threats to independence be identified, evaluated and addressed.
3. Under this approach, when the Firm provides assurance services to an entity (“auditee”), all firm personnel have an obligation to make their best efforts to:
 - a) Identify circumstances or relationships that might create threats to independence,
 - b) Evaluate whether these threats are clearly insignificant, and
 - c) In cases where the threats are not clearly insignificant, consult with the Ethics and Independence Partner and the Assurance Engagement Partner to identify and apply appropriate safeguards to eliminate the threats or reduce them to an acceptable level.
4. If an inadvertent violation occurs, it would generally not compromise independence with respect to an auditee provided the Firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

Identifying Threats to Independence

5. The generally recognised threats to independence⁹ are:
 - Self interest threat;
 - Self-review threat;
 - Advocacy threat;
 - Familiarity threat; and
 - Intimidation threat.

⁹ These threats have been explained in the Chapter, “Introduction” in this Guide.

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6. When threats to independence are identified, other than those determined to be clearly insignificant, safeguards should be identified and applied to eliminate the threats or reduce them to an acceptable level. The nature of the safeguards to be applied will vary depending upon the circumstances. Consideration should be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable.
7. When threats to independence are identified that are not clearly insignificant, and the Firm decides to accept or continue the assurance engagement in accordance with its engagement acceptance or continuance processes, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
8. When the safeguards available are insufficient to eliminate the threats to independence or to reduce them to an acceptable level, or when a Firm chooses not to eliminate the activities or interests creating the threat, the only course of action available will be the refusal to perform, or withdrawal from, the assurance engagement.
9. Some examples of safeguards that might be applied are:
 - a) Involving an additional partner or professional staff member to carry out reviews of the work done or to otherwise advise as necessary. This individual could be someone in another Firm or someone within the Firm who was not otherwise associated with the assurance engagement.
 - b) Rotation of senior partners or professional staff.
 - c) Discussing independence issues with the auditee's audit committee or others those charged with governance.
 - d) Removing an individual assigned to the assurance engagement team when that individual's economic or financial interests or other relationships create a threat to independence.

Complying With the Independence Policies and Procedures

10. Partners, professional staff and all others persons employed by the Firm are responsible for understanding and complying with all applicable independence policies and procedures.
11. Partners, professional staff and all others persons employed by the Firm are required to:
 - a) Read all relevant independence policies.
 - b) Understand the extent to which they apply to them and their immediate family members.
 - c) Understand that the financial and employment relationships of immediate family members can threaten or impair independence with respect to an auditee.
 - d) Provide information to their immediate family members about the independence policies.
 - e) Understand that there are limitations or restrictions on our ability to provide services to auditees.
 - f) Comply with applicable independence policies and procedures at all the times.
12. To enable partners and employees to be in compliance with the policies, the Firm leadership shall establish a system that enables each of them to be aware at all times of the most recent list of auditees and, where such auditees are listed companies, of their holding and subsidiary companies, even if the Firm does not render any assurance services to such holding and subsidiary companies.

13. This will be particularly relevant if partners and employees desire to:
 - a) Make an investment in the auditee;
 - b) Make a borrowing from or give a loan to the auditee;
 - c) Obtain or modify an insurance policy with an insurance company auditee;
 - d) Accept employment with an auditee; and
 - e) Enter into a business relationship with an auditee.
14. Partners and employees of the Firm are required to consult others when they need assistance identifying possible threats to independence or resolving independence issues or concerns.

Confirming Compliance with Independence Policies

15. Partners and employees of the Firm must, upon request, confirm in writing their compliance with all applicable independence policies.

Understanding the Consequences of Non-Compliance

16. Partners and employees of the Firm who fail to comply with all applicable independence policies and procedures should be subject to the Firm's disciplinary process. The range of possible disciplinary actions may include memos to the individual's personnel file, reductions in compensation and termination. The severity of the disciplinary action will depend on the nature of the violation and other facts and circumstances unique to each case. Ignorance of the policies is not considered a legitimate defense for failure to comply.

Financial Interests

17. Partners and employees of the Firm and their immediate family members are prohibited from making investments in equity or debt instruments in the auditee if they are members of the assurance engagement team ("AET").
18. Should any such investment be made inadvertently (e.g., upon receiving an inheritance or gift), the partner/employee shall ensure that it is disposed of within a period of one month from the date of investment.
19. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from making a borrowing from an auditee, unless the auditee is a financial institution that lends in the normal course of business, and the borrowing was on its normal lending terms.
20. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from giving a loan to an auditee or to an officer, director, or major shareholder of an auditee.
21. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from being an executor, administrator, or trustee of a trust/estate, and have authority to make investment decisions for the trust/estate, that had an investment in an auditee.

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22. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from obtaining a new, or make significant changes to an existing, insurance product of any kind, from an insurance company auditee.

Employment Relationships

23. Partners and employees of the Firm, if they are members of the AET, should not serve as an officer or director on the board of an auditee.
24. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from being associated with an auditee in an accounting or financial reporting oversight role.
25. Partner and employees of the Firm, if they are members of the AET, are prohibited from being engaged in employment negotiations with or taking up employment with the auditee without first informing the Ethics and Independence Partner. In such situation, they should forthwith withdraw from the assurance engagement.

Business Relationships

26. Partner and employees of the Firm, if they are members of the AET, are prohibited from having a business relationship with or joint investment (e.g., partnership interests) in an auditee or with an officer, director, or major shareholder of that auditee.

Long Association

27. Using the same partners and professional staff on an assurance engagement for an auditee over a long period of time may create a familiarity threat.
28. The Firm shall establish a personnel rotation policy so that members of the AET, including the partner where possible, rotate off the engagement upon rendering assurance services for a determined period of time (e.g., seven years).
29. The Firm's personnel rotation policy shall state that a person who rotates off an engagement does not get reinstated on that engagement except after a specified "cooling off" period (e.g., two years).

Gifts and Hospitality

30. Partner and employees of the Firm, if they are members of the AET, should not accept gifts or hospitality from the auditee, unless the value is clearly insignificant.
31. If there are any questions regarding receipt of the gift or hospitality, the Ethics and Independence Partner should be consulted.

Scope of Services

32. The laws and regulations governing the auditee (eg., the Companies Act, 1956 or rules made thereunder) or a regulator may specifically prohibit the Firm from rendering certain services to an auditee (e.g., internal audit services). In such cases, the proscribed services cannot be provided at all.
33. Besides this, it is not possible to draw up an all-inclusive list of non-assurance services which, if provided to an auditee, might create threats to independence and of the different safeguards that might eliminate these threats or reduce them to an acceptable level.
34. Because the provision of a non-assurance service may create threats to independence, the engagement partner, in consultation with the Ethics and Independence Partner, should evaluate the significance of any such threat before the Firm agrees to provide the service.
35. Where a threat to independence is assessed, the Ethics and Independence Partner shall determine if providing the service after applying suitable safeguards would eliminate or reduce the threat to an acceptable level. If not, the Firm should decide whether it makes better business sense to provide the non-assurance service and withdraw from the assurance engagement or vice versa.
36. The following activities should not be performed:
 - a) Acting in a capacity equivalent to that of a member of management.
 - b) Reporting, in a management role, to those charged with governance.
 - c) Determining which recommendation of the Firm should be implemented.
 - d) Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the auditee, or having the authority to do so.
37. The assurance engagement partner, in consultation with the Ethics and Independence Partner, should consider the self-review or self-interest threats that may be created by the following activities and the appropriate safeguards to reduce the threats to an acceptable level:
 - a) Having custody of an auditee's assets.
 - b) Supervising the auditee's employees in the performance of their normal recurring activities.
 - c) Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).
38. The following safeguards may be particularly relevant in reducing, to an acceptable level, threats created by the provision of non-assurance Services to auditees:
 - a) Discussing independence issues related to the provision of non-assurance services and the nature and extent of the fees charged for such services with those charged with governance, such as the audit committee.
 - b) Consulting with the Ethics and Independence Partner on the potential impact of the non-assurance engagement on the independence of the AET and the Firm and acting on the recommendations.

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- c) Involving an additional partner or professional staff member to provide assurance on a discrete aspect of the assurance engagement.
- d) Obtaining the auditee's acknowledgement of responsibility for the results of the work performed by the Firm.
- e) Making arrangements so that partners and professional staff members providing non-assurance services do not participate in the assurance engagement.

Fees

- 39. Total fees generated by an auditee should not represent a large proportion of the Firm's total fees.
- 40. A self-interest threat may be created when the fees generated by an auditee represent a large proportion of the revenue of an individual partner.
- 41. If fees for services provided to an auditee remain unpaid over an extended period of time, it may appear that the Member Firm has a loan to the auditee. Because of the significance of the overdue fees, the Firm should consider if it is appropriate for the Firm to be re-appointed. Therefore, fees for a specific accounting period should be received before issuance of an assurance report for the following year. If this is not possible, then consideration should be given as to whether adequate safeguards can be applied.
- 42. The Firm should not enter into a contingent fee arrangement with an auditee to provide assurance services where the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement.

Illustrative Client/Engagement Acceptance and Continuance Form

Client Name:

Engagement Name:

Period End:

Relationship:

Is this a new client relationship?	Yes	No
Is this a new engagement?	Yes	No
If not a new client relationship, age of the relationship		
If this is a recurring engagement, year of first performance and periodicity (e.g., annual, quarterly)		

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Prior Audit Information:

--

Detailed Current Period Analysis:

(For continuing clients/engagements, this analysis should be prepared afresh at the beginning of each period)

#	Does the engagement term have reasons to have concerns about:	Yes ¹⁰	No	Not Applicable
1.	Management's characteristics and integrity			
2.	Management's overall commitment to reliable financial reporting			
3.	Management's commitment to reliable accounting process and information system			
4.	Organizational structure			
5.	Management structure and control			
6.	Characteristics and integrity of significant related parties			
7.	Nature of services to be provided and reports expected			
8.	Ethical considerations in providing the expected service, or in associating the name of the Firm with the client/engagement			
9.	Management's methods of assigning authority and responsibility			
10.	Senior management control methods			
11.	Impact of computers			
12.	Activities of those charged with governance			
13.	Nature of the business			

¹⁰ For "Yes" answers provide details in a separate workpaper, cross-referenced in the box.

Annexures

#	Does the engagement term have reasons to have concerns about:	Yes	No	Not Applicable
14.	Business environment			
15.	Significant pressure on management to report certain financial results			
16.	Going concern assumption			
17.	Conditions surrounding the audit engagement			
18.	The Firm's ability to comply with auditing standards			
19.	Accounting issues that may present unacceptable risk			
20.	Significant transactions and business relationships			
21.	Financial roles and responsibilities			
22.	Likelihood of intentional misrepresentation			
23.	Likelihood of fraud			
24.	Lack of implementation of appropriate internal controls			
25.	Independence and conflicts of interest-threats to independence			
26.	The Firm's ability to complete the engagement with professional competence			
27.	Any other matters:			
	•			
	•			
	•			
	•			

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Conclusion on client/engagement acceptance or continuance by engagement partner:

Signature of engagement partner

Date : _____

Concurrence on client/engagement acceptance or continuance by Firm's managing partner, risk management partner, or equivalent:

Signature of engagement partner/equivalent

Date : _____

Annexure IV

Workpaper reference:

Prepared by:

Date:

Reviewed by:

Date:

Illustrative Engagement Planning Memorandum

(Where space is inadequate, expand or give reference of separate workpaper)

Client Name:

Engagement Name:

Period End:

Deliverables:

Name of Deliverable	Date of Deliverable

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Terms of Engagement (Engagement Letter):

Dated:	Acknowledged on:	File Reference:

Engagement Team Members:

Name of Member	Level

Understanding the Entity and its Environment:

Document under the captions below the key features of the engagement team's understanding of the entity and its environment:

Understanding with reference to:	Description of the understanding	Audit risk identified	Response to identified risk
Prior audit information			
Operations			
Ownership and management structure			
Related parties			
Modes of financing activities			
Business objectives and strategies, and related business risks			
Industry-specific matters and trends			
General business environment			
Laws and regulations			
Other external factors			
Critical accounting policies			
Reporting requirements			
Financial performance			

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Understanding with reference to:	Description of the understanding	Audit risk identified	Response to identified risk
Taxation			
Needs, expectations and concerns of senior management			
Key entity personnel (name, designation, location)			
Accounting staff (name, designation, location)			
Main address for correspondence			
Bankers			
Attorneys/solicitors Any other matters			

Evaluation of Internal Controls:

A. Overall Controls:

Control	Evaluation of design and implementation	Audit risks identified	Response to identified risk
A. Control Environment			
B. Management's risk assessment process			

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Control	Evaluation of design and implementation	Audit risks identified	Response to identified risk
C. Information Systems and Communication			

Control	Evaluation of design and implementation	Audit risks identified	Response to identified risk
D. Monitoring			

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B. Account-balance Specific Controls:

Account balance (Provide below financial statement line-item captions – e.g. Fixed Assets, Investments, Cash, etc., first for balance sheet and then for statement of profit and loss)	Control (Describe below the related key internal controls for each account balance)	Evaluation of design and implementation (i.e. an evaluation of how the control meets its objective and who owns and monitors the control)	Evaluation of operating effectiveness (i.e. an evaluation of whether the control was found to be operating effectively)	Findings and comments A. Opinion on whether the control can be relied upon by the engagement team; B. Audit risks identified C. Response to risk identified

Account balance (Provide below financial statement line-item captions – e.g. Fixed Assets, Investments, Cash, etc., first for balance sheet and then for statement of profit and loss)	Control (Describe below the related key internal controls for each account balance)	Evaluation of design and implementation (i.e. an evaluation of how the control meets its objective and who owns and monitors the control)	Evaluation of operating effectiveness (i.e. an evaluation of whether the control was found to be operating effectively)	Findings and comments A. Opinion on whether the control can be relied upon by the engagement team; B. Audit risks identified C. Response to risk identified

Implementation Guide to SQC 1

Understanding the Accounting Process:

A. The use of Computers

Extent of use of computers		
Limited	Moderate	Pervasive
Complexity of the computer environment		
Simple	Moderate	Complex
Importance to the entity's business activities		
Limited	Moderate	Very Important
Overall evaluation of use of computers		
Insignificant	Substantial	Critical

If evaluation of use of computers is at "critical" level, will a computer assurance specialist be involved?

YES	NO
Reason, if "No":	

B. Unusual Transactions

Does the entity have non-routine or unusual transaction? (journal entries)	Yes	No
If "yes", describe such transactions and the resultant audit risks identified	Response to risk identified	

Annexures

C. Discussion among engagement team members on the susceptibility of the entity’s financial statements to material misstatement due to fraud.

Date of Fraud Meeting :	
Name and levels of those who attended :	
Name	Level
1.	
2.	
3.	
4.	
5.	
Minutes of discussions at the meeting (give reference to separate work paper)	WP Ref.
Significant fraud risks identified	Response to risk identified

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D. Inquiries and obtaining an understanding of oversight exercised by those charged with governance:

Date of Inquiry by interview	Name of person interviewed and his designation	Reference of separate workpaper documenting minutes of the interview	Has the person interviewed exercised oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate fraud risks

E. Based on an analytical review of the most recently available financial information (including from the entity's management information systems) and on a consideration of fraud risk factors, unusual or unexpected relationships, and other information, determine account-balance specific fraud and other audit risks that the engagement team should consider when performing substantive procedures.

Account balance (Provide below financial statement line-item captions – e.g., Fixed Assets, Investments, Cash, etc., first for balance sheet and then for statement of profit and loss)	Audit risk identified		Response to risks identified
	Fraud Risk? Y/N	Describe the audit risk	

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Materiality:

Materiality, as determined by the engagement team, at overall financial statement level

Rs.

Materiality, as determined by the engagement team, in relation to classes of transactions, account balances, and disclosures (if any)

Classes of transactions/account balances/disclosures	Rs.

Annexure V

Illustrative Engagement Summary Memorandum

(Where space is inadequate, expand or give reference of separate workpaper)

Client Name:

Engagement Name:

Period End:

Changes to Materiality:

(Where the quantitative materiality at the financial statement level was changed during the course of audit, give the old and the new materiality, and reasons for the change)

Changes to Audit Plan:

(Where the audit plan was changed after being made as a consequence of discovery and evaluation of new facts during the course of audit, give reasons for and the nature of the change)

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Compliance with Accounting Pronouncements:

(Where standard firm checklists were completed to ensure compliance with accounting pronouncements, give reference to the separate workpapers)

--

Compliance with auditing pronouncements:

(Where standard firm checklists were completed to ensure compliance with auditing pronouncements, give reference to the separate workpapers)

--

Additional risks identified:

(Where additional risks were identified and added to the audit plan as a consequence of knowledge gained during the course of audit, describe the nature of risk)

Conclusion on risks identified in the audit plan:

Risk identified	Audit programme tailoring done to address the risk	Results of testing (– whether the risk was eliminated or reduced to an acceptable level?)

Conclusion about the appropriateness of the going concern assumption:

Conclusion about the effect of subsequent event reviews:

Summary of adjusted misstatements:

(Give details of misstatements due to error/fraud that were discovered during audit and were adjusted by the client in the financial statements)

Nature of misstatement	Amount (Rs)	Account balances affected	Whether adjusted to auditor's satisfaction? Y/N ¹¹

¹¹ If "No", consider wholly or partly as unadjusted misstatement.

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Summary of unadjusted¹² misstatements:

(Give details of misstatements due to error/fraud that were discovered during audit and not adjusted by the client in the financial statements)

Nature of misstatement	Amount (Rs)	Account balances affected
Total		

Conclusion on unadjusted misstatements:

(Un-adjusted misstatements should be aggregated and their combined net effect measured against the overall materiality level. The aggregate net effect of unadjusted misstatements should be reasonably below the materiality level in order for the auditor to conclude that the financial statements are not materially misstated.)

Net aggregate unadjusted misstatements	Rs.
Materiality	Rs.
Conclusion on whether, based on the above, the financial statements are not materially misstated?	

¹² Un-adjusted misstatements = items that were considered as errors/fraud by the auditor but which the client either refused to accept as misstatements or refused to adjust, citing materiality or account closure or any other reason. Typically, these would be projected misstatements, disagreements with auditor on estimates, or unexplained differences in substantive analytical procedures.

Annexures

Overall conclusion on whether the audit procedures applied and evidence obtained are appropriate and sufficient to support the audit opinion?

--

Conclusion about independence:

--

Conclusion about client and engagement continuance in the following period based on findings during the current audit:

--

Follow-up points (for next audit):

(Describe here matters that the auditor became aware of during the current audit that might have an impact on the audit of the following or a subsequent period)

1.	
2.	
3.	
4.	
5.	
6.	

Illustrative Firm Quality Control Inspection Checklist

Section A – Firm Level Quality Controls

Leadership Responsibilities

Policy	Y/N	Remarks, if “No”
Has the Firm leadership demonstrated that it has assumed ultimate responsibility for the Firm’s system of QC ¹³ ?		
Does the Firm have an effective mechanism in place to ensure that commercial considerations do not override the quality of work performed?		
Has responsibility for the Firm’s QC been assigned to a QC partner or other duly empowered individual?		
Are personnel policies designed to reward quality?		
Are sufficient monetary and human resources applied to maintain and augment QC policies and procedures within the Firm?		

	Full / near full compliance	Part compliance	No compliance
RATING			

¹³ QC = quality control

Ethical Requirements

Policy	Y/N	Remarks, if “No”
Does the Firm have effective mechanisms in place to ensure that its personnel adhere to and do not compromise its ethical requirements?		
Has the Firm regularly communicated its independence requirements to all its personnel?		
Does the Firm have internal processes and effective mechanisms by which it ensures that it identifies threats to independence on a timely basis and takes demonstrable steps to eliminate or reduce those threats to an acceptable level?		
Does the Firm have effective internal processes whereby it exits from an engagement or client relationship where threats to independence are significant and such that cannot be reduced to an acceptable level?		
Has annual written confirmation been obtained from all Firm personnel and whether the Firm has taken steps to address defaults?		
Where another Firm performs part of an engagement, has the Firm confirmed that such other Firm and its related personnel meet the independence requirements?		

RATING	Full / near full compliance	Part compliance	No compliance

Implementation Guide to SQC 1

Acceptance and Continuance of Client Relationships and Specific Engagements

Policy	Y/N	Remarks, if "No"
Does the Firm have a process for making inquiries and obtaining information about a client, its personnel and the intrinsic risks of an engagement on a periodic basis that would identify questionable management integrity or high engagement risk?		
Has the Firm undertaken only those engagements which it can perform with professional competence?		
Does the Firm have an effective policy for obtaining written engagement letters for all its engagements and whether the contents of the engagement letter are sufficiently detailed and clear?		
Does the Firm have in place an effective policy for exiting engagements or client relationships if the situation so warrants?		
Has the Firm maintained proper documentation of its client and engagement acceptance and continuance procedures?		

RATING	Full / near full compliance	Part compliance	No compliance

Human Resources

Policy	Y/N	Remarks, if “No”
Does the Firm have procedures that enable it to ensure that it hires only competent personnel?		
Does the Firm have an effective mechanism that enables it to determine the capabilities and competencies that would be required of its personnel for individual engagements?		
Has the Firm established criteria for evaluating both personal and technical competencies of its personnel and has such criteria been applied consistently?		
Does the Firm have an effective mechanism to assign engagements and review responsibilities to partners and professional staff based on their knowledge, skills and abilities?		
Does the Firm provide its personnel with opportunities, resources and encouragement to participate in continuing professional education and development activities?		
Do the Firm’s policies ensure that personnel who are selected for advancement have the competencies to fulfill their new responsibilities?		

	Full / near full compliance	Part compliance	No compliance
RATING			

Implementation Guide to SQC 1

Engagement Performance

Policy	Y/N	Remarks, if "No"
Does the Firm have a standard approach to ensuring that engagements are planned as required by the relevant auditing standards and the Firm's policies?		
Does the Firm have a standard approach for performing, supervising, documenting, reporting and communicating its engagements and deliverables in a manner that ensures compliance with the relevant auditing standards and the Firm's policies?		
Does the Firm have a standard approach for timely review of workpapers by competent senior personnel?		
Do the Firm's documentation policies ensure that final engagement files are assembled on a timely basis?		
Does the Firm have standard policies and procedures for maintenance of confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation?		
Does the Firm have a document retention policy?		
Does the Firm have an effective policy for consultation within and outside the Firm? Are consultations adequately documented?		
Does the Firm have an effective mechanism to address and resolve differences of opinion?		
Has the Firm established criteria for selection of engagements that qualify for engagement QC review and for the appointment of reviewers, and does it maintain documentation of engagements that have been subjected to engagement QC review?		
Are procedures addressing the nature, timing, extent, and documentation of the engagement QC review well established, and being followed effectively?		

RATING	Full / near full compliance	Part compliance	No compliance

Monitoring

Policy	Y/N	Remarks, if “No”
Has an empowered partner or other qualified individual been designated to perform the Firm’s quality inspection process?		
Are the Firm’s inspection procedures sufficiently comprehensive to enable it to assess compliance with all applicable professional standards and its own QC policies and procedures?		
Are the findings of the inspection duly communicated to all concerned persons, and whether the Firm leadership effectively drives the changes required to strengthen the areas of identified weakness?		
Does the Firm have processes in place to deal with complaints and allegations about non-compliance with professional standards, regulatory and legal requirements, or the Firm’s system of QC with him without fear of reprisals.		
Does the Firm prepare and retain appropriate documentation to provide evidence of the operation of each element of its system of QC.		

	Full / near full compliance	Part compliance	No compliance
RATING			

Implementation Guide to SQC 1

Section B – Engagement Level Quality Controls

Client and engagement acceptance and continuance:

Policy	Y/N	Remarks, if “No”
Whether adequate process was followed to conclude on client acceptance/continuance during/for the year?		
Whether adequate process was followed to conclude on engagement acceptance/continuance during/for the year?		

RATING	Full / near full compliance	Part compliance	No compliance

Selection of engagement team:

Policy	Y/N	Remarks, if “No”
Did the audit engagement partner properly determine that the engagement team selected, including specialists where necessary, had the qualifications and experience appropriate for the audit engagement?		
Where use of computers by the client was evaluated as “critical” to the accounting system, was a computer audit specialist included on the engagement team in testing the computer general and application controls?		
Where an outside specialist was included as a member of the engagement team, did the engagement partner make an adequate evaluation of his competency to perform the work entrusted to him?		

RATING	Full / near full compliance	Part compliance	No compliance

Annexures

Terms of engagement:

Policy	Y/N	Remarks, if "No"
Were the terms of the audit engagement properly agreed with the client and documented in writing?		

RATING	Full / near full compliance	Part compliance	No compliance

Understanding the entity and its environment:

Policy	Y/N	Remarks, if "No"
Did the engagement team obtain an understanding of the entity and its environment sufficient to enable it to identify and assess the risks and develop an effective audit plan?		

RATING	Full / near full compliance	Part compliance	No compliance

Understanding and evaluating internal controls:

Policy	Y/N	Remarks, if "No"
Did the engagement team obtain an understanding of the overall entity-level controls and evaluate the components of: control environment, management's risk assessment process, information systems and communication, and monitoring?		
Did the engagement team obtain an understanding of the computer general and application controls and evaluate them to enable identification and assessment of the risks of material		

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Policy	Y/N	Remarks, if "No"
misstatement of the financial statements, and design and perform further audit procedures?		
Did the engagement team obtain an understanding of the account-balance specific manual controls and evaluate them to enable identification and assessment of the risks of material misstatement of the financial statements, and design and perform further audit procedures?		

RATING	Full / near full compliance	Part compliance	No compliance

Identification of and response to fraud risks:

Policy	Y/N	Remarks, if "No"
Were audit procedures, as required by relevant AAS, followed for identification of fraud risks?		
Where pervasive fraud risks ¹⁴ were identified, did the engagement team evaluate the design of the entity's related internal controls and determine whether they have been implemented?		
Where specific fraud risks ¹⁵ were identified, were audit programmes for substantive testing adequately tailored to eliminate or reduce the risks to a level that would prevent the likelihood of material misstatement		

RATING	Full / near full compliance	Part compliance	No compliance

¹⁴ Pervasive risks are risks of material misstatements that are not specific to any individual item or group of related items in the financial statements.

¹⁵ Specific risks are risks of material misstatement that are specific to an individual item or group of related items in the financial statements.

Annexures

Understanding and evaluating the accounting process:

Policy	Y/N	Remarks, if "No"
Did the engagement team obtain a sufficiently detailed understanding of the accounting system, including the transaction and document flows, to be able to evaluate risks of system failure resulting in a material misstatement?		
Was the audit programme at the account balance and significant assertion level suitably tailored to consider the engagement team's findings from its understanding of the accounting system, including the transaction and document flows?		

	Full / near full compliance	Part compliance	No compliance
RATING			

Controls Testing:

Policy	Y/N	Remarks, if "No"
Were key general computer controls (where use of computers was determined as "critical") tested for their operating effectiveness?		
Were key application computer controls tested for their operating effectiveness?		
Were key manual controls tested for their operating effectiveness?		

	Full / near full compliance	Part compliance	No compliance
RATING			

Implementation Guide to SQC 1

Developing an Audit Plan:

Policy	Y/N	Remarks, if "No"
As a result of risk assessment and controls testing, did the engagement team conclude on modifying the nature, timing and extent of substantive procedures?		
Was a detailed audit planning memorandum prepared to guide the engagement team through the audit?		
Were detailed audit programmes, tailored to address fraud and other risks, prepared and used to perform tests of controls and substantive procedures such that the objectives of a "risk based" audit are achieved?		

RATING	Full / near full compliance	Part compliance	No compliance

Internal Audit:

Policy	Y/N	Remarks, if "No"
Was the work performed by the internal auditor reviewed by the engagement team?		
If the engagement team decided to place reliance on the work of the internal auditor, were due procedures as required by the relevant AAS followed?		

RATING	Full / near full compliance	Part compliance	No compliance

External Confirmations:

Policy	Y/N	Remarks, if “No”
Did the engagement team follow procedures for obtaining evidence from external confirmations to support the existence of certain items of assets, liabilities and contingent liabilities, including attorneys’ confirmations?		

RATING	Full / near full compliance	Part compliance	No compliance

Audit Sampling:

Policy	Y/N	Remarks, if “No”
In performing tests of account balances and assertions, did the engagement team follow an appropriate method of selecting samples as provided in the related AAS?		
Were the nature and causes of errors detected in testing of samples, and consider their possible effect on the particular audit objective and on other areas of the audit.		
For tests of details, did the engagement team project monetary errors found in the sample to the population, and consider the effect of the projected error on the particular audit objective and on other areas of the audit.		
Did the engagement team evaluate the sample results to determine whether the assessment of the relevant characteristic of the population is confirmed or needs to be revised?		

RATING	Full / near full compliance	Part compliance	No compliance

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Accounting Estimates:

Policy	Y/N	Remarks, if "No"
Did the engagement team design and perform adequate audit procedures to obtain sufficient appropriate audit evidence as to whether the entity's accounting estimates are reasonable in the circumstances and, when required, appropriately disclosed.		

RATING	Full / near full compliance	Part compliance	No compliance

Related Parties:

Policy	Y/N	Remarks, if "No"
Did the engagement team perform adequate procedures to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of material related party transactions?		

RATING	Full / near full compliance	Part compliance	No compliance

Subsequent Events:

Policy	Y/N	Remarks, if “No”
Did the engagement team perform adequate audit procedures to obtain sufficient appropriate audit evidence that all events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified?		

RATING	Full / near full compliance	Part compliance	No compliance

Management Representations:

Policy	Y/N	Remarks, if “No”
Did the engagement team obtain audit evidence that management acknowledges its responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework, and has approved the financial statements?		
Did the engagement team obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist?		

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Policy	Y/N	Remarks, if "No"
<p>Did the written representations obtained from management include the following:</p> <ul style="list-style-type: none"> • That management acknowledges its responsibility for the design and implementation of internal control to prevent and detect error; and • That management believes the effects of those uncorrected financial statement misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. <p>Whether a summary of such items was included in or attached to the written representations?</p>		

RATING	Full / near full compliance	Part compliance	No compliance

Section C – Summary of Ratings

QUALITY CONTROL	RATING		
	Full / near full compliance	Part compliance	No compliance
SECTION A :			
Leadership responsibilities for quality within the Firm			
Ethical requirements			
Acceptance and continuance of client relationships and specific engagements			
Human resources			
Engagement performance			
Monitoring			
SECTION B:			
Client and engagement acceptance and continuance			
Selection of engagement team			
Terms of engagement			
Understanding the entity and its environment			
Understanding and evaluating internal controls			
Identification of and response to fraud risks			

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QUALITY CONTROL	RATING		
	Full / near full compliance	Part compliance	No compliance
Understanding and evaluating the accounting process			
Controls Testing			
Developing an audit plan			
Internal audit			
External confirmations			
Audit Sampling			
Accounting estimates			
Related Parties			
Subsequent events			
Management representations			
Total Number			

Standard on Quality Control (SQC) 1

Quality Control for Firms that Perform Audits
& Reviews of Historical Financial Information,
and Other Assurance & Related Services Engagements

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Material Modifications to the International Standard on Quality Control (ISQC)1

The following is the text of the Standard on Quality Control (SQC) 1, "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements". The Standard should be read in conjunction with the "Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", issued by the Institute of Chartered Accountants of India¹.

¹ Published in the July 2007 issue of the Journal.

Appendix: Standard on Quality Control (SQC) 1

INTRODUCTION

1. The purpose of this Standard on Quality Control (SQC) is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute² (*hereinafter referred to as "the Code"*).
2. Additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements are set out in other pronouncements of the Auditing and Assurance Standards Board (AASB) issued under the authority of the Council. For example, Standard on Auditing (SA) 220, *Quality Control for Audit Work*³, establishes standards and provides guidance on quality control procedures for audits of historical financial information.
3. **The firm should 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 firm⁴ or engagement partner(s) are appropriate in the circumstances.**
4. A system of quality control consists of policies designed to achieve the objectives set out in paragraph 3 and the procedures necessary to implement and monitor compliance with those policies.
5. This SQC applies to all firms. The nature of the policies and procedures developed by individual firms to comply with this SQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.

DEFINITIONS

6. In this SQC, the following terms have the meanings attributed below:
 - a) *Engagement documentation* - the record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are also sometimes used). The documentation for a specific engagement is assembled in an engagement file;
 - b) *Engagement partner* - the partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and 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.

² Attention of the members is invited, for instance, to the Guidance Note on Independence of Auditors, issued by the Committee on Ethical Standards.

³ Earlier known as Auditing and Assurance Standard (AAS) 17, "Quality Control for Audit Work".

⁴ It is clarified that in India the reports are not issued/signed in the firm name, rather they are issued/signed on behalf of the firm by the sole practitioner, proprietor or a partner of the firm, as the case may be, in his individual name. The definition of a 'firm' has been given in paragraph 6(f) of this Standard.

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- c) *Engagement quality control review* - a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
- d) *Engagement quality control reviewer* - a partner⁵, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.
- e) *Engagement team* - all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
- f) *Firm* - a sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.
- g) *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.
- h) *Listed entity* - an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.
- i) *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 enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
- j) *Network firm* - an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
- 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* - engagement standards, as defined in the AASB's "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," and relevant ethical requirements as contained in the Code.
- n) *Reasonable assurance* - in the context of this SQC, a high, but not absolute, level of assurance.
- o) *Staff* - professionals, other than partners, including any experts which the firm employs.
- p) *Suitably qualified external person* - an individual outside the firm with the capabilities and competence to act as an engagement partner, for example⁶ a partner or an employee (with appropriate experience) of another firm.

⁵ Such other person should be a member of the Institute of Chartered Accountants of India.

⁶ Such employee should be a member of the Institute of Chartered Accountants of India.

ELEMENTS OF A SYSTEM OF QUALITY CONTROL

7. **The firm's system of quality control should include policies and procedures addressing each of the following elements:**
 - a) **Leadership responsibilities for quality within the firm;**
 - b) **Ethical requirements;**
 - c) **Acceptance and continuance of client relationships and specific engagements;**
 - d) **Human resources;**
 - e) **Engagement performance; and**
 - f) **Monitoring.**
8. **The quality control policies and procedures should be documented and communicated to the firm's personnel.** Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

9. **The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control.**
10. 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 emphasizing the firm's quality control policies and procedures, and the requirement to:
 - a) Perform work that complies with professional standards and regulatory and legal 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. They may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They are 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.

11. Of particular importance 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. Accordingly:

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- a) The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed;
 - b) The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, are designed to demonstrate the firm's overriding commitment to quality; and
 - c) The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.
12. **Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.**
13. Sufficient and appropriate experience and ability enables the responsible person or persons 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.

ETHICAL REQUIREMENTS

14. **The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.**
15. Ethical requirements relating to audits and reviews of historical financial information, and other assurance and related services engagements are contained in the Code. The Code establishes the fundamental principles of professional ethics, which include:
- a) Integrity;
 - b) Objectivity;
 - c) Professional competence and due care;
 - d) Confidentiality; and
 - e) Professional behavior.
16. The Code includes a conceptual approach to independence for assurance engagements, including aspects such as threats to independence, accepted safeguards and the public interest.
17. **The firm's policies and procedures should emphasize the fundamental principles, which are reinforced in particular by**
- a) **the leadership of the firm;**
 - b) **education and training;**
 - c) **monitoring; and**
 - d) **a process for dealing with non-compliance.** Independence for assurance engagements is so significant that it is addressed separately in paragraphs 18-27 below. These paragraphs need to be read in conjunction with the Code.

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Independence

18. The firm should 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 experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:
 - a) Communicate its independence requirements to its personnel and, where applicable, to 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.
19. Such policies and procedures should require:
 - a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
 - b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and
 - c) The accumulation and communication of relevant information to appropriate personnel so that:
 - i) The firm and its personnel can readily determine whether they satisfy independence requirements;
 - ii) The firm can maintain and update its records relating to independence; and
 - iii) The firm can take appropriate action regarding identified threats to independence.
20. The firm should 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 should include requirements for:
 - a) All who are subject to independence requirements 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 those subject to the independence requirements who need to take appropriate action; and
 - c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

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21. Comprehensive guidance on threats to independence and safeguards, including application to specific situations are contained in the Code.
22. A firm receiving notice of a breach of independence policies and procedures promptly communicates relevant information to engagement partners, others in the firm, as appropriate and, where applicable, experts contracted by the firm and network firm personnel, for appropriate action. Appropriate action by the firm and the relevant engagement partner includes applying appropriate safeguards to eliminate the threats to independence or to reduce them to an acceptable level, or withdrawing from the engagement. In addition, the firm provides independence education to personnel who are required to be independent.
23. **At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.**
24. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.
25. The Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such a threat. **Accordingly, the firm should establish policies and procedures:**
 - a) **Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and**
 - b) **For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code.**
26. Using the same senior personnel on assurance engagements over a prolonged period may create a familiarity threat or otherwise impair the quality of performance of the engagement. **Therefore, the firm should establish criteria for determining the need for safeguards to address this threat.** In determining appropriate criteria, the firm considers such matters as
 - a) the nature of the engagement, including the extent to which it involves a matter of public interest, and
 - b) the length of service of the senior personnel on the engagement. Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.
27. The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the engagement partner should be rotated after a pre-defined period, normally not more than seven years⁷.

⁷ The provision of rotation of partners shall not be applicable in case the audit of listed entities is being done by a sole practitioner/proprietor. However, in order to ensure that appropriate system of quality control exists in the firm and that appropriate reports are issued in the circumstances by sole practitioners/proprietors, such practice unit(s) shall be compulsorily reviewed under the process of peer review.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

28. The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it:
- a) Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
 - b) Is competent to perform the engagement and has the capabilities, time and resources to do so; and
 - c) Can comply with the ethical requirements.

The firm should 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. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

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

The 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.

30. Information on such matters that the firm obtains may come from, for example:
- Communications with existing or previous providers of professional accountancy services to the client in accordance with the Code, 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.

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31. In considering whether the firm has the capabilities, competence, time and resources to undertake a new engagement from a new or an existing client, the firm reviews the specific requirements of the engagement and existing partner and staff profiles at all relevant levels. Matters the firm considers include whether:
- Firm personnel have knowledge of relevant industries or subject matters;
 - Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
 - The firm has sufficient personnel with the necessary capabilities and competence;
 - Experts are available, if needed;
 - Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
 - The firm would be able to complete the engagement within the reporting deadline.
32. The firm also considers whether accepting an engagement from a new or an existing client may give rise to an actual or perceived conflict of interest⁸. Where a potential conflict is identified, the firm considers whether it is appropriate to accept the engagement.
33. 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 knowledge or expertise.
34. **Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should 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.**
35. 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 regarding the appropriate action that the firm might take based on the relevant facts and circumstances.

⁸ Paragraph 1.4 of the **Code of Ethics** issued by the ICAI provides that "When in practice, an accountant should both be, and appear to be, free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity". **The Guidance Note on Independence of Auditors** issued by the ICAI provides that "In addition to ensuring independence during the assignment, it is also essential to avoid any situation in near future which may be interpreted as a threat to independence, as for example, he or any other partner of his firm should not accept any other assignment such as internal audit, system audit and management consultancy services within one year from the completion of audit assignment".

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- 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, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant issues, consultations, conclusions and the basis for the conclusions.

HUMAN RESOURCES

36. **The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.**
37. Such policies and procedures address the following personnel issues:
- a) Recruitment;
 - b) Performance evaluation;
 - c) Capabilities;
 - d) Competence;
 - e) Career development;
 - f) Promotion;
 - g) Compensation; and
 - h) Estimation of personnel needs.

Addressing these issues enables the firm to ascertain the number and characteristics of the individuals required for the firm's engagements. The firm's recruitment processes include procedures that help the firm select individuals of integrity as well as the capacity to develop the capabilities and competence necessary to perform the firm's work.

38. Capabilities and competence are developed through a variety of methods, including the following:
- Professional education;
 - Continuing professional development, including training;
 - Work experience; and
 - Coaching by more experienced staff, for example, other members of the engagement team.

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39. 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 and also enhance their knowledge and capabilities. The firm therefore emphasizes in its policies and procedures, the need for continuing training for all levels of firm personnel, and provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence. Where internal technical and training resources are unavailable, or for any other reason, the firm may use a suitably qualified external person for that purpose.
40. The firm's performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. In particular, the firm:
 - a) Makes personnel aware of the firm's expectations regarding performance and ethical principles;
 - b) Provides personnel with evaluation of, and counselling on, performance, progress and career development; and
 - c) Helps 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.
41. 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

42. **The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:**
 - a) **The identity and role of the engagement partner are communicated to key members of the client's management and those charged with governance;**
 - b) **The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and**
 - c) **The responsibilities of the engagement partner are clearly defined and communicated to that partner.**
43. Policies and procedures 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.
44. **The firm should also assign appropriate staff with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.**

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45. The firm establishes procedures to assess its staff's capabilities and competence. The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the following:
- An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
 - An understanding of professional standards and regulatory and legal requirements.
 - Appropriate technical knowledge, including knowledge of relevant information technology.
 - Knowledge of the relevant industries in which the clients operate.
 - Ability to apply professional judgment.
 - An understanding of the firm's quality control policies and procedures.

ENGAGEMENT PERFORMANCE

46. **The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances.**
47. Through its policies and procedures, the firm seeks to establish consistency in the quality of engagement performance. 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 include the following:
- 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.
48. It is important that all members of the engagement team understand the objectives of the work they are to perform. Appropriate team-working and training are necessary to assist less experienced members of the engagement team to clearly understand the objectives of the assigned work.
49. Supervision includes the following:
- Tracking the progress of the engagement.
 - Considering the capabilities and competence 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 issues arising during the engagement, considering their significance and appropriately modifying the planned approach appropriately.
 - Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
50. Review responsibilities are determined on the basis that more experienced engagement team members, including the engagement partner, review work performed by less experienced team members. Reviewers consider whether:
- a) The work has been performed in accordance with professional standards and regulatory and legal requirements;
 - b) Significant matters have been raised for further consideration;
 - c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - d) There is a need to revise the nature, timing and extent of work performed;
 - e) The work performed supports the conclusions reached and is appropriately documented;
 - f) The evidence obtained is sufficient and appropriate to support the report; and
 - g) The objectives of the engagement procedures have been achieved.

Consultation

51. **The firm should 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 such consultations are documented; and**
 - d) **Conclusions resulting from consultations are documented and implemented.**
52. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.
53. 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. The firm seeks to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.
54. Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations.

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55. A firm needing to consult externally, for example, a firm without appropriate internal resources may take advantage of advisory services provided by (a) other firms, or (b) professional and regulatory bodies. Before contracting for such services, the firm considers whether the external provider is suitably qualified for that purpose.
56. The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of:
 - a) The issue on which consultation was sought; and
 - b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Differences of Opinion

57. **The firm should 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. Conclusions reached should be documented and implemented.**
58. Such 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. **The report should not be issued until the matter is resolved.**
59. A firm using a suitably qualified external person(s) to conduct an engagement quality control review recognizes that differences of opinion can occur and establishes procedures to resolve such differences, for example, by consulting with another practitioner or firm, or a professional or regulatory body.

Engagement Quality Control Review

60. **The firm should 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 should:**
 - 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 should be evaluated to determine whether an engagement quality control review should be performed; and**
 - c) **Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).**

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61. **The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.**
62. Criteria that a firm considers when determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review include the following:
- 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.
63. **The firm should establish policies and procedures setting out:**
- a) **The nature, timing and extent of an engagement quality control review;**
 - b) **Criteria for the eligibility of engagement quality control reviewers; and**
 - c) **Documentation requirements for an engagement quality control review.**

Nature, Timing and Extent of the Engagement Quality Control Review

64. An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and, in particular, consideration of whether the report is appropriate. It also involves a review of selected working papers relating to the significant judgments that the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.
65. An engagement quality control review for audits of financial statements of listed entities includes considering the following:
- The engagement team's evaluation of the firm's independence in relation to the specific engagement.
 - Significant risks identified during the engagement and the responses to those risks.
 - Judgments made, particularly with respect to materiality and significant risks.
 - 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.
 - 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.
 - Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
 - The appropriateness of the report to be issued.

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Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.

66. The engagement quality control reviewer conducts the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued.
67. Where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the firm's procedures for dealing with differences of opinion.

Criteria for the Eligibility of Engagement Quality Control Reviewers

68. **The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through:**
 - a) **The technical qualifications required to perform the role, including the necessary experience and authority; and**
 - b) **The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.**
69. The firm's policies and procedures on the technical qualifications of engagement quality control reviewers address the technical expertise, experience and authority necessary to perform the role. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. In addition, the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.
70. The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:
 - a) Is not selected by the engagement partner;
 - b) Does not otherwise participate in the engagement during the period of review;
 - c) Does not make decisions for the engagement team; and
 - d) Is not subject to other considerations that would threaten the reviewer's objectivity.
71. The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant, however, 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 is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The firm's policies provide for the replacement of the engagement quality control reviewer where the ability to perform an objective review may be impaired.

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72. 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 firm follows the requirements and guidance in paragraphs 69-72.

Documentation of the Engagement Quality Control Review

73. **Policies and procedures on documentation of the engagement quality control review should 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 before the report is issued; 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 they reached were not appropriate.**

Engagement Documentation

Completion of the Assembly of Final Engagement Files

74. **The firm should 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.**
75. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement should be completed. Where no such time limits are prescribed in law or regulation, the firm establishes time limits appropriate to the nature of the engagements 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 is ordinarily not more than 60 days after the date of the auditor's report.
76. 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

77. **The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.**
78. 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

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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.

79. 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, the firm designs and implements appropriate controls for engagement documentation to:
- a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed;
 - b) 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;
 - c) Prevent unauthorized changes to the engagement documentation; and
 - d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.
80. Controls that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example:
- 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 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.
81. For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:
- a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
 - b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and
 - c) Enable the scanned copies to be retrieved and printed as necessary.

The firm considers whether to retain original paper documentation that has been scanned for legal, regulatory or other reasons.

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Retention of Engagement Documentation

82. The firm should 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.
83. 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. In the specific case of audit engagements, the retention period ordinarily is no shorter than ten years from the date of the auditor's report, or, if later, the date of the group auditor's report.
84. Procedures that the firm adopts for retention of engagement documentation include those that:
- 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.
 - Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

Ownership of Engagement Documentation

85. 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

86. The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.
87. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:
- a) Adherence to professional standards and regulatory and legal requirements;
 - b) Whether the quality control system has been appropriately designed and effectively implemented; and

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- c) 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.
88. The firm entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. Monitoring of the firm's system of quality control is performed by competent individuals and covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control.
89. Ongoing consideration and evaluation of the system of quality control includes matters such as the following:
- Analysis of:
 - New developments in professional standards and regulatory and legal 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.
90. The inspection of a selection of completed engagements is ordinarily performed on a cyclical basis. Engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle, which ordinarily spans no more than three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, including the following:
- The size of the firm.
 - The number and geographical location of offices.
 - The results of previous monitoring procedures.
 - The degree of authority both personnel and offices have (for example, whether individual offices are 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.
91. The inspection process includes the selection of individual engagements, some of which may be selected without prior notification to the engagement team. Those inspecting the engagements are not involved in

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performing the engagement or the engagement quality control review. 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.

92. Small firms and sole practitioners may wish to use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, they may wish to establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities.
93. **The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and should 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 regulatory and legal 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.**
94. **The firm should communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.**
95. **The firm's evaluation of each type of deficiency should result in recommendations for 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.**
96. **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, the firm should determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements. It should also consider obtaining legal advice.**
97. **At least annually, the firm should communicate the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing partner(s). Such communication should enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated should include the following:**
 - a) **A description of the monitoring procedures performed.**

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- 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.**
98. The reporting of identified deficiencies to individuals other than the relevant engagement partners ordinarily does not include an identification of the specific engagements concerned, unless such identification is necessary for the proper discharge of the responsibilities of the individuals other than the engagement partners.
99. Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this SQC, and these firms place reliance on such a monitoring system:
- a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms;
 - b) The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and
 - c) Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.
100. Appropriate documentation relating to monitoring:
- a) Sets out monitoring procedures, including the procedure for selecting completed engagements to be inspected;
 - b) Records the evaluation of:
 - i) Adherence to professional standards and regulatory and legal requirements;
 - ii) Whether the quality control system has been appropriately designed and effectively implemented; and
 - iii) 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; and
 - c) Identifies the deficiencies noted, evaluates their effect, and sets out the basis for determining whether and what further action is necessary.

Complaints and Allegations

101. **The firm should 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 regulatory and legal requirements; and**
 - b) **Allegations of non-compliance with the firm's system of quality control.**

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102. 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.
103. As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.
104. The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.
105. Where the results of the investigations indicate 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, the firm takes appropriate action as discussed in paragraph 95.

DOCUMENTATION

106. **The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.**
107. How such matters are documented is the firm's decision. For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller firms may use more simpler and informal methods such as manual notes, checklists and forms.
108. Factors to consider when determining the form and content of documentation evidencing the operation of each of the elements of the system of quality control include the following:
 - The size of the firm and the number of offices.
 - The degree of authority both personnel and offices have.
 - The nature and complexity of the firm's practice and organization.
109. The firm retains this 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.

EFFECTIVE DATE

110. This Standard on Quality Control is recommendatory for all engagements relating to accounting periods beginning on or after April 1, 2008 and is mandatory for all engagements relating to accounting periods beginning on or after April 1, 2009.

MATERIAL MODIFICATIONS TO THE INTERNATIONAL STANDARD ON QUALITY CONTROL (ISQC) 1, QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

Additions

1. Paragraph 6(d) of the ISQC 1, dealing with the definition of “engagement quality control reviewer” mentions that “other person in the firm” with sufficient and appropriate experience and authority can also act as quality control reviewer. The SQC 1 has retained this concept subject to the condition that such “other person in the firm” should also be a member of the Institute of Chartered Accountants of India.
2. Paragraph 6(d) of the ISQC 1, while defining the “engagement quality control reviewer” provides that the review can be done by a team of individuals comprising the partner, other person in the firm and/or the suitably qualified external person. The SQC 1 has retained this concept subject to the condition that in case of review by a team of individuals, such team should be headed by a member of the Institute.
3. Paragraph 6(f) of the ISQC 1 defines “firm” as “a sole practitioner, partnership, corporation or other entity of professional accountants”. Since in India an individual can practice in his individual name and also in the name of the firm as proprietor of that firm, accordingly, the term 'Proprietor' has been added to the definition of the firm.
4. Paragraph 83 of the ISQC 1 prescribes the minimum period of engagement documentation as five years. The SQC 1 prescribes the minimum period of retention of engagement documentation as ten years since, as per the provisions of the Chartered Accountants Act, 1949, including regulations therein, prescribes the minimum period of retention of working papers as ten years.

Deletions

1. Paragraph 6(f) of the ISQC 1 defines “firm” as “a sole practitioner, partnership, corporation or other entity of professional accountants”. Since in India, the practitioners establish any corporate entity for practice, the word 'Corporation' has been deleted from the definition.
2. In terms of paragraph 6(p) of the ISQC 1, defining a “suitably qualified external person” as a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organisation that provides relevant quality control services. Since, in India only the Institute of Chartered Accountants of India is the professional body whose members can carry out an audit or a review of historical financial information or other assurance engagement, a specific reference to this fact appearing in the context of “partner of another firm or an employee” has been deleted from the definition of “suitably qualified external person”.
3. Paragraph 6(p) lays down that “an organisation that provides relevant quality control services” can also act as a suitably qualified person. The SQC does not include any such requirement since it is felt that a review of a firm of accountants should be done by a similar firm of accountants only.

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4. Paragraph 27 of the ISQC 1 requires that in all engagements of audit of listed companies, the engagement partner of the firm should be rotated within a period of seven years in order to avoid the familiarity threat. The SQC 1 does not mandate such a provision in the audit engagements of the listed entities that are audited by the sole practitioner/proprietors as it is not possible to apply the provision in such cases. However, the SQC 1 provides for peer review of those firms in order to mitigate familiarity threat.
5. The ISQC 1 also deals with the public sector perspective. However, since the Standards, Statements, General Clarifications and Guidance Notes issued by the ICAI are equally applicable in case of all engagements, irrespective of the form, nature and size of the entity, this Standard does not specifically mention that aspect.