

The Institute of Chartered Accountants of Pakistan

REVIEW OF 'FIRM'S SYSTEM OF QUALITY CONTROL' UNDER 'ISQC-1' COMPLIANCE

Name of reviewer			
Name of the Firm			
Size of the Firm		No. of Locations	
Name of Managing/ Senior Partner			
Name of QC Partner/ In-charge		Location	

'ISQC 1' COMPLIANCE REVIEW FORM

S. #	COMPLIANCE REQUIREMENTS UNDER ISQC – 1	Yes / No / N/A	Document Reference and Reviewer's assessment
1	[11] Is the objective of the firm to establish and maintain a system of quality control to provide it with reasonable assurance that: (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.		
2	Applying, and Complying with, Relevant Requirements [13] Do the Personnel within the firm responsible for establishing and maintaining the firm's system of quality control have an understanding of the entire text of this ISQC, including its application and other explanatory material, to understand its objective and to apply its requirements properly.		
3	[14] Does the firm comply with each requirement of ISQC unless (in the circumstances of the firm) the requirement is not relevant to the services provided in respect of audit engagements.		
4	[15] Are the requirements designed to enable the firm to achieve the objective stated in this ISQC?		

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5	<p>Elements of a System of Quality Control [16] Has the firm established and maintains a system of quality control that includes policies and procedures that address each of the following elements:</p> <ul style="list-style-type: none"> a) Leadership responsibilities for quality within the firm. b) Relevant ethical requirements. c) Acceptance and continuance of client relationships and specific engagements. d) Human resources. e) Engagement performance. f) Monitoring. 		
6	[17] Has the firm documented its policies and procedures and communicated them to the firm's personnel.		
7	<p>Leadership Responsibilities for Quality within the Firm [18] Has the firm established policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements?</p> <p>Such policies and procedures require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control.</p>		
8	<p>[19] Has the firm established policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate:</p> <ul style="list-style-type: none"> i) Experience; ii) Ability and iii) Necessary authority, to assume that responsibility. 		

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9	<p>Relevant Ethical Requirements [20] Has the firm established policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.</p>		
10	<p>Independence [21] Has the firm established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Do Such policies and procedures enable the firm to: a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is permitted by law or regulation.</p>		

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11	<p>[22] Do the policies and procedures referred in paragraph [21] above require:</p> <p>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;</p> <p>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</p> <p>c) The accumulation and communication of relevant information to appropriate personnel so that:</p> <p style="padding-left: 20px;">(i) The firm and its personnel can readily determine whether they satisfy independence requirements;</p> <p style="padding-left: 20px;">(ii) The firm can maintain and update its records relating to independence; and</p> <p style="padding-left: 20px;">(iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.</p>		
12	<p>[23] Has the firm established 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? Do the policies and procedures include requirements for:</p> <p>a) Personnel to promptly notify the firm of independence breaches of which they become aware;</p> <p>b) The firm to promptly communicate identified breaches of these policies and procedures to:</p> <p style="padding-left: 20px;">i) The engagement partner who, with the firm, needs to address the breach; and</p> <p style="padding-left: 20px;">ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and</p> <p>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.</p>		

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13	<p>[24] Does the Firm at least annually, obtains written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements.</p>		
14	<p>[25] Has the firm established policies and procedures:</p> <p>(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</p> <p>(b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements.</p>		
15	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>[26] Has the firm established policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:</p> <p>(A) Is competent to perform the engagement and has the capabilities, including time and resources, to do so;</p> <p>(b) Can comply with relevant ethical requirements; and</p> <p>(c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.</p>		

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16	<p>[27] Do policies and procedures referred in paragraph [26] above, require:</p> <p>(a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.</p> <p>(b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.</p> <p>(c) If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.</p>		
17	<p>[28] Has the firm established policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures shall include consideration of:</p> <p>(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</p> <p>(b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship.</p>		

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18	<p>Human Resources</p> <p>[29] Has the firm established policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:</p> <p>(a) Perform engagements in accordance with professional standards and regulatory and legal requirements; and</p> <p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p>		
19	<p>Assignment of Engagement Teams</p> <p>[30] Has the firm assigned responsibility for each engagement to an engagement partner and has established policies and procedures requiring that:</p> <p>(a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;</p> <p>(b) The engagement partner has the appropriate competence, capabilities, and authority to perform the role; and</p> <p>(c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.</p>		
20	<p>[31] Has the firm also established policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:</p> <p>(a) Perform engagements in accordance with professional standards and regulatory and legal requirements; and</p> <p>(b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p>		

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21	<p>Engagement Performance</p> <p>[32] Has the firm established 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 issued reports that were appropriate in the circumstances. Such policies and procedures include:</p> <p>(a) Matters relevant to promoting consistency in the quality of engagement performance;</p> <p>(b) Supervision responsibilities; and</p> <p>(c) Review responsibilities.</p>		
22	<p>[33] Are the firm’s review responsibility policies and procedures determined on the basis that work of less experienced team members is reviewed by more experienced engagement team members?</p>		
23	<p>Consultation</p> <p>[34] Has the firm established policies and procedures designed to provide it with reasonable assurance that:</p> <p>(a) Appropriate consultation takes place on difficult or contentious matters;</p> <p>(b) Sufficient resources are available to enable appropriate consultation to take place;</p> <p>(c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and</p> <p>(d) Conclusions resulting from consultations are implemented.</p>		

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24	<p><i>Engagement Quality Control Review</i> [35] Has the firm established 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.</p> <p>Such policies and procedures: (a) Require an engagement quality control review for all audits of financial statements of listed entities; (b) Set out criteria against which all audits engagements be evaluated to determine whether an engagement quality control review is performed; and (c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph (b).</p>		
25	<p>[36] Has the firm established policies and procedures setting out the nature, timing and extent of an engagement quality control review.</p> <p>Do such policies and procedures require that the engagement report not be dated until the completion of the engagement quality control review.</p>		
26	<p>[37] Has the firm established policies and procedures to require the engagement quality control review to include: (a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements or other subject matter information and the proposed report; (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.</p>		

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27	<p>[38] For audits of financial statements of listed entities, has the firm established policies and procedures to require the engagement quality control review to also include consideration of the following:</p> <p>(a) The engagement team’s evaluation of the firm’s independence in relation to the specific engagement;</p> <p>(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and</p> <p>(c) Whether documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.</p>		
28	<p>Criteria for the Eligibility of Engagement Quality Control Reviewers</p> <p>[39] Has the firm established policies and procedures to address the appointment of engagement quality control reviewers and established their eligibility through:</p> <p>(a) The technical qualifications required to perform the role, including the necessary experience and authority; and</p> <p>(b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer’s objectivity.</p>		
29	<p>[40] Has the firm established policies and procedures designed to maintain the objectivity of the engagement quality control reviewer?</p>		

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30	[41] Do the firm's policies and procedures provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired?		
31	<p>Documentation of the Engagement Quality Control Review</p> <p>[42] Has the firm established policies and procedures on documentation of the engagement quality control review which require documentation that:</p> <p>(a) The procedures required by the firm's policies on engagement quality control review have been performed;</p> <p>(b) The engagement quality control review has been completed on or before the date of the report; and</p> <p>(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.</p>		
32	<p><i>Differences of Opinion</i></p> <p>[43] Has the firm established policies and procedures for dealing with and resolving differences of opinion within the...</p> <p>a) engagement team;</p> <p>b) with those consulted; and</p> <p>c) Where applicable, between the engagement partner and the engagement quality control reviewer.</p>		
33	[44] Do policies and procedures referred in paragraph [43] above, require that: <p>(a) Conclusions reached be documented and implemented; and</p> <p>(b) The report is not dated until the matter is resolved.</p>		

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34	<p><i>Engagement Documentation/ Completion of the Assembly of Final Engagement Files</i> [45] Has the firm established 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?</p>		
35	<p>Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation [46] Has the firm established policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation?</p>		
36	<p>Retention of Engagement Documentation [47] Has the firm established 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. What is the Retention Period? i) 1 – 3 Years; ii) 4 – 5 Years; iii) 5 - 10 Years.</p>		

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37	<p>Monitoring <i>the Firm’s Quality Control Policies and Procedures</i></p> <p>[48] Has the firm established a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively? This process:</p> <p>(a) Includes an ongoing consideration and evaluation of the firm’s system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;</p> <p>(b) Requires responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and</p> <p>(c) Requires that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.</p>		
38	<p>Evaluating, Communicating and Remediating Identified Deficiencies</p> <p>[49] Does the firm evaluate the effects of deficiencies noted as a result of the monitoring process and determine whether there are either:</p> <p>(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</p> <p>(b) Systematic, repetitive or other significant deficiencies that require prompt corrective action.</p>		

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39	[50] Does the firm communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action?		
40	<p>[51] Do the recommendations referred in paragraph [50] above, for appropriate remedial actions for deficiencies noted include one or more of the following:</p> <p>(a) Taking appropriate remedial action in relation to an individual engagement or member of personnel;</p> <p>(b) The communication of the findings to those responsible for training and professional development;</p> <p>(c) Changes to the quality control policies and procedures; and</p> <p>(d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.</p>		
41	<p>[52] Has the firm established policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement?</p> <p>Do such policies and procedures require the firm to determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements and to consider whether to obtain legal advice?</p>		

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42	<p>[53] Does the firm communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm’s chief executive officer or, if appropriate, it’s managing board of partners?</p> <p>Is this communication sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities? Information communicated shall include the following:</p> <p>(a) A description of the monitoring procedures performed.</p> <p>(b) The conclusions drawn from the monitoring procedures.</p> <p>(c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.</p>		
43	<p>[54] Does the firm operate as part of a network?</p> <p>Does, for consistency, firm implement some of their monitoring procedures on a network basis?</p> <p>Does, within network, the firm operate under common monitoring policies and procedures designed to comply with the ISQC 1, and the firm place reliance on such monitoring system?</p> <p>Do firm’s policies and procedures require that:</p> <p>(a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and</p> <p>(b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken, in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.</p>		

S. #	COMPLIANCE REQUIREMENTS UNDER ISQC – 1	Yes / No / N/A	Document Reference and Reviewer’s assessment
44	<p><i>Complaints and Allegations</i></p> <p>[55] The firm has established policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <p>(a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and</p> <p>(b) Allegations of non-compliance with the firm’s system of quality control.</p> <p>As part of this process, has the firm established clearly defined channels for firm’s personnel to raise any concerns in a manner that enable them to come forward without fear of reprisals?</p>		
45	<p>[56] If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm’s quality control policies and procedures or non-compliance with the firm’s system of quality control by an individual or individuals are identified, does the firm take appropriate actions?</p>		
46	<p>Documentation of the System of Quality Control</p> <p>[57] Has the firm established policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control?</p>		
47	<p>[58] Has the firm established policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm’s compliance with its system of quality control, or for a longer period if required by law or regulation?</p>		
48	<p>[59] Has the firm has established policies and procedures requiring documentation of complaints and allegations and the responses to them?</p>		

Reviewer's observations:

Firm's comments

Reviewer's Signature: _____

QC Partner's/ Person In-charge's Signature: _____

Date:

Place: