

Implementation Guide to SQC 1



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

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:

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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			

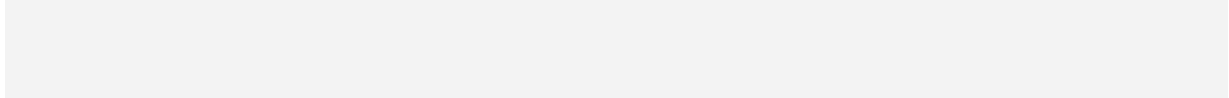
¹⁰ For "Yes" answers provide details in a separate workpaper, cross-referenced in the box.

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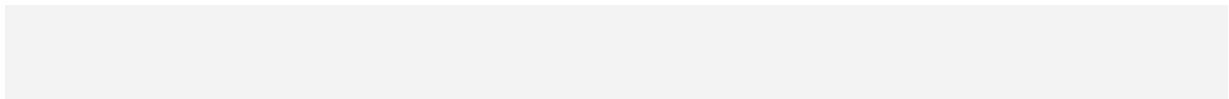
Conclusion on client/engagement acceptance or continuance by engagement partner:



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

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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	

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	

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)

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Compliance with auditing pronouncements:

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

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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?

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Conclusion about independence:

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

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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?		

	Full / near full compliance	Part compliance	No compliance
RATING			

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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			

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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			

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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			

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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			