

***INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS OF RWANDA  
(ICPAR)***

**AUDIT QUALITY REVIEW  
FRAMEWORK**

## Table of Contents

PREFACE.....	4
1.0 INTRODUCTION .....	5
1.1 Expected achievement of the programme .....	6
1.2 Benefits of the programme .....	6
2.0 Definitions .....	6-7
3.0 Scope of Audit Quality Review.....	7
4.0 Review Criteria .....	9
5.0 Reviewers.....	9
6.0 Professional Conduct .....	9
6.1 Independence .....	9
6.2 Confidentiality .....	10
6.3 Integrity .....	10
6.4 Objectivity .....	10
6.5 Due Professional Care .....	10
6.6 Competence .....	10
6.6.1 Reviewers (team leaders).....	11
6.6.2 Other members of the review team .....	11
6.7. Training and development .....	11
6.8 Professional Indemnity Cover.....	11
7.0. Reviewees .....	11
8.0 Review materials .....	12
9.0 Cost of the review.....	12
10.0 Methodological approach and fieldwork .....	12
10.1 Planning .....	12
10.2 Execution .....	14
10.2.1 Visits.....	14
10.2.2 Entry Conference.....	14
10.2.3 Compliance review- general controls. ....	14
10.2.4. Selection of the attestation services engagements to be reviewed .....	15
10.2.5 Performance of Review. ....	15
10.2.6 Exit Conference.....	16
10.3 Reporting.....	16
10.3.1 Types of Reports Issued.....	17
10.4 Follow-Up.....	17

10.4.1 An unqualified report .....	17
10.4.2 Qualified Reports .....	18
Appendix 1 Statement of Confidentiality .....	19
Appendix 2 Statement of Independence .....	20
Appendix 3 Pre-review Questionnaire .....	21
Appendix 4 Unqualified Report Version 1 .....	23
Appendix 5 Unqualified Report Version 2 .....	24
Appendix 6 Qualified Report Version 1 .....	25
Appendix 7 Qualified Report Version 2 .....	26
Appendix 8 Internal Quality Control Questionnaire-Reviewee .....	27
Appendix 9 Engagement Review Checklist .....	34
Appendix 10 Internal Quality Control Questionnaire - Reviewer .....	50
Appendix 11 Risk Assessment Criteria .....	64

## **PREFACE**

The Institute of Certified Public Accountants of Rwanda {ICPAR} is established under the Law number 11/2008, the Laws of Rwanda as the national regulator of the accountancy profession. Its chief mandate is the promotion of the standards of professional competence and practice among its members.

Pursuant to this mandate, the Institute has over time undertaken a wide range of projects aimed at developing a sustainable institutional capacity to support the competence and integrity of the members to enhance their contribution to the accountancy profession globally.

To assure the quality of the work of its members in public practice the Institute has developed an Audit Quality Review Programme which is the subject of this framework. This final version of the AQA Framework was a result of extensive consultation between the Institute, Members, Government of Rwanda and various other stakeholders. The preparation of this framework dissemination to members in several participative workshops was facilitated by Owen Koimburi, FCPAK, MA of KOKA Koimburi & Co. ICPAR is indebted to the Competitive and Enterprise Development Project of Kigali Rwanda for funding this initiative.

It is the view of Council that this consultation will continue with a view to improving the monitoring process and incorporating experience gained during the reviews and during the Main Implementation.

It is the view of Council that the implementation of the Audit Quality Review Programme will go a long way in enhancing the public perception that the accountancy profession in Rwanda and is committed to high standards of professional work among its members and also reiterate its commitment to self regulation.

This framework brings together for continuing reference background information about ICPAR's Audit Quality Review Programme. It provides details of the nature, scope and the methodological approach in respect of the programme and also outlines the checklists that would be used in collating information as would enable a reviewer to express an opinion on the design of the quality control system of an auditing practice and on the compliance with the system.

The framework will be reviewed from time to time as deemed necessary.

## 1.0 INTRODUCTION

A distinguishing mark of a profession is acceptance and perceived value of its responsibility in the social- economic and political environment within which it operates. The accounting profession has acquired a reputation for integrity, objectivity and competence through its many years of service to the clients, employers and the public. Maintenance and enhancement of this reputation and public confidence is the challenge of the 21<sup>st</sup> century accountancy profession.

In facing this challenge, the Institute has set out to develop and implement various initiatives that would assist in monitoring the quality of the professional work of its members. One such initiative is a quality assurance programme for its members in practice. This programme, which is the subject of this document, will be known as ***ICPAR's Audit Quality Review Programme***. It is designed to provide mechanisms for assessing the existence and effectiveness of quality control policies and procedures for assurance engagements carried out by its members in practice.

This programme envisages that members in practice will:

- (a) Establish and maintain appropriate quality control policies and procedures and comply with them to ensure the quality of their professional work
- (b) Have independent Audit Quality Reviews of their auditing practices at least once every five years, or such other term as may be recommended by the International Federation of Accountants. (IFAC).
- (c) Take remedial and corrective actions as recommended in the Audit Quality Review reports.
- (d) Have their own in-house reviews, at least once every three years.

Quality in the performance of Auditing Engagements by ICPAR members is the goal of the Audit Quality Review Programme. The Programme seeks to achieve its goal through education and remedial, corrective actions. This goal serves the public interest and, at the same time, enhances the significance of ICPAR membership.

The Programme is based on the principle that a systematic monitoring and educational process is the most effective way to attain and maintain the envisaged quality of professional work throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed practice unit is expected to take appropriate actions in response to deficiencies in either design of its system of quality control, or its compliance with that system, or both. These actions will be positive and remedial. Matters touching on the professional conduct of a member will be investigated within the Disciplinary Process as provided for in the Laws of the Land.

## **1.1 Expected achievement of the programme**

Successful implementation of the Programme is expected to:-

- (a) Promote compliance with professional standards.
- (b) Provide reasonable assurance to users of financial statements that professional standards have been complied with in the performance of audit and other related services.
- (c) Bring increased user confidence in the reliability of audited financial statements.
- (d) Enhance status and image of the CPA's to the public through the assurance of the quality of audit services.
- (e) Ensure that auditors are competent and independent, and have put in place measures to ensure competence and independence is maintained.
- (f) Help identify weaknesses in the audit process and provide technical assistance for professional development.
- (g) Establish a mechanism of continuous quality improvement in professional practice and self regulatory framework for policies and procedures.

## **1.2 Benefits of the programme**

- (a) The public perception of the profession will improve in that it will not only be seen as one that promulgates high standards, but one that also monitors and enforces those standards.
- (b) Provide an important base for an educational and supportive service that will assist practitioners in maintaining and improving the quality of their work.
- (c) Assist in identifying and removing from practice those practitioners who do not adhere to professional standards.
- (d) Help in downward negotiating of the cost of professional indemnity covers since the risks will be reduced by the fact that the profession is subject to effective monitoring.
- (e) Put the profession in a stronger position to influence the future direction of regulatory involvement in the activities of practitioners, particularly the attest function.
- (f) Help demonstrate that the profession is committed to self-regulation and to ensuring the highest standards of professional work.

*The Programme comes at a time when the worldwide trend in professional development is geared towards enhancing the monitoring process with a view to providing the public with the necessary assurance that quality of professional work is being maintained. IFAC has made it clear that membership to this worldwide organization will soon be pegged to the effective implementation of quality assurance programmes by member institutes.*

## **2.0 Definitions**

For the purpose of this framework,

**2.1 An Audit of Financial Statements** – Means the use and procedures as will enable an auditor to express an opinion on whether the financial statements of the entity are prepared in all material respects, in accordance with International Financial Reporting Standards and the requirements of the Companies Act and other relevant legislation. The phrases used to express the auditor's opinion are "give a true and fair view" or "present fairly, in all material respects." The audit shall be conducted in accordance with International Standards on Auditing. The term audit will be used interchangeably with the term attestation.

**2.2 Practice Unit** - Means members in practice, whether practicing individually or as partners in a firm of Certified Public Accountants of Rwanda. The phrases "firm" and "practice unit" shall be used interchangeably.

**2.3 Council** - Means the Council of the Institute of Certified Public Accountants of Rwanda

**2.4 Member** - Means a member of the Institute of Certified Public Accountants of Rwanda

**2.5 Practicing Member** - Means a holder of a practicing certificate issued in accordance with the provisions of the Accountants Act.

**2.6 Audit Quality Review** - Means an independent examination and review of a practice unit's audit practice to determine whether:

- a) Systems and procedures have been put in place by the practice unit for ensuring the quality of audit work;
- b) These systems and procedures were effective or not during the period under review;
- c) The audit opinion issued on the engagements selected was appropriate in the circumstances;
- d) The audit evidence gathered was sufficient and appropriate to support the conclusions drawn including the audit opinion and
- e) Professionalism was upheld during the period under review.

**2.7 Audit Quality Assurance Committee** - Means a Committee established by the Council to oversee the operation of the Audit Quality Review Programme.

**2.8 Reviewer** - Means the person charged with the responsibility of heading the review team (team leader)

**2.9 Review Materials** - *Mean* any document in print or electronic form pertaining to the review.

**2.10. Technical Standards** - Mean and include:

- a) International Financial Reporting Standards issued by the International Accounting Standards Board (IASB);
- b) International Financial Reporting Standards Interpretations issued by the International Financial Reporting Standards Interpretation Committee of IASB;
- c) International Standards on Auditing issued by International Auditing and Assurance Board (IAASB)
- d) Provisions of the Companies Act;
- e) Provisions of the other relevant Statutes and / or Regulations which are applicable in the context of the specific engagements being reviewed and
- f) Notifications, Advisories and Guidance of a technical nature issued by Council including those of a self- regulatory nature.

**2.11. Professional Standards-** Mean and include the Technical Standards, the Professional Code of Ethics issued by IFAC and other aspects of best practice as may be recommended by Council from time to time.

### **3.0 Scope of Audit Quality Review**

The review will cover the professional aspects of the firm's auditing practice.

The review should cover recently concluded assignments which should take into consideration the following factors;

- a) **The risk aspect of assignments** - more high-risk engagements should be reviewed as apposed to low-risk engagements. To this end, an engagement risk approach to guide the reviewers in the selection of offices and engagements is appended. The risk approach elaborates on the concept of Audit Quality Review Risk and how the reviewer should assess and document this risk. {Appendix 12}

- b) **Size of the engagements** - there should be a proper blending of large, medium and small engagements.
- c) **Industrial coverage** - efforts shall be made to select engagements from as many industries as practicable.
- d) **Partners** - engagements selected shall cover the work of all the partners of a practice unit.



### **3.1 Divestiture**

a) Divestiture of a portion of the practice of a reviewed firm during the year under review may have to be reported as a scope limitation if the review team is unable to assess compliance for reports issued under the firm's name during that year. If the review team is able to review engagements of the divested portion of the reviewed firm's practice, then the review team should review such engagements considered necessary to obtain an appropriate scope for the Audit Quality Review. In such circumstances, an appropriate scope is one in which the review covers all owners and significant industry areas that existed prior to the divestiture.

b) If the divested portion of the practice is unavailable for review and represents less than ten percent of the reviewed firm's auditing hours, then the review team does not have to modify the report for a scope limitation.

c) In all other circumstances, the review team should carefully assess the effects the divestiture has on the scope of the Audit Quality Review.

d) A review team leader who is considering whether an Audit Quality Review report should be modified for a scope limitation due to a divestiture should consult with the Audit Quality Review Committee.

### **4.0 Review Criteria**

An Audit Quality Review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether, during the year under review.

a) The reviewed firm's system of quality control for its auditing practice has been designed in accordance with Quality Control Standards established by the Institute. These standards include the International Standards on Quality Control issued by the International Federation of Accountants and other requirements as may prescribe by Council from time to time.

b) The reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of conforming to professional standards.

### **5.0 Reviewers**

The reviewers will either be employees of the Institute or persons contracted by the Institute to do that work. The Institute will therefore be overly responsible for their competence and professional conduct. Critical issues relating to the reviewers are addressed below.

### **6.0 Professional Conduct**

Every person associated with the review in any capacity will be expected to maintain an acceptable level of professional conduct in all matters pertaining to the review. Such persons involved in the review will be bound by a code of conduct specifically designed for them over and above the professional code of ethics issued by IFAC for professional accountants.

The following tenets will be of primary importance with respect to the conduct of persons associated with the review.

#### **6.1 Independence**

The review team or any other individual who participates in the review shall be free from any obligations of interest in the practice unit. All reviewers and team members will be required to sign a declaration of independence and should inform the Institute of any assignment where their independence is likely to be compromised. (Appendix 2).

## **6.2 Confidentiality**

Information concerning the reviewed firm or any of its clients or personnel, including the findings of the review that is obtained as a consequence of the review is confidential. All persons engaged in the review process;

- a) Shall at all times after their appointment maintain confidentiality in regard to any matter coming to their knowledge in the performance or in assisting in the performance, of any function directly or indirectly related to the review.
- b) Shall not at any time communicate any such matters to any one not involved in the review or use such information other than for the purpose of carrying out the review or administering the programme.
- c) Shall not at any time permit any other person to have any access to the records, documents or any other material in any form which is in their possession or under their control by virtue of their being or having been appointed or having performed or having assisted any other persons in the performance of the review.

The Institute on its part shall put in place mechanisms to ensure that confidentiality with respect to the reviewed firm and its clients is maintained. This will be achieved by among other things, ensuring that:-

- a) Any persons involved in or associated with the review commit themselves to observing confidentiality requirements by signing a Statement of Confidentiality with respect to matters which come before them  
(Specimen form in Appendix 1)
- b) Any person involved in the review that acts to the contrary shall be withdrawn from current and future reviews and be subjected to disciplinary action as shall be communicated in a separate document.
- c) All the review working papers shall be retained for a reasonable period of time following the conclusion of the review but the Institute shall ensure confidentiality of such information.

## **6.3 Integrity**

All persons involved or associated with a review in any capacity should be straightforward, honest and sincere in the approach and performance of the review and in handling all matters pertaining to the review. Such persons should not knowingly mislead or misrepresent facts to others and should use due care to avoid doing so unintentionally. They should be conscious that integrity must be an overriding factor. Information obtained in the course of review should not be used to gain any undue advantage.

## **6.4 Objectivity**

The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

## **6.5 Due Professional Care**

Due professional care should be exercised in performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner.

## **6.6 Competence**

Competence shall be addressed from two ends:

### **6.6.1 Reviewers (team leaders).**

As a minimum a reviewer shall be required to:

- a) Be a member of the Institute (ICPAR) or other recognised institutes ;
- b) Possess at least 5 years audit experience and
- c) Have current knowledge of professional standards.

### **6.6.2 Other members of the review team**

A review team shall be constituted to ensure that it has within its membership persons with the current knowledge of the professional standards applicable to the type of engagements to be reviewed and recent knowledge and experience in the industries of the engagements selected for review especially where engagements are selected from highly specialized industries.

Where required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas who are not CPAs may assist the review team in a consulting capacity.

For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education may participate in certain segments of the review. Council shall ensure that those conducting the review are qualified to do so.

### **6.7. Training and development**

Adequate training shall be provided to the reviewers and other persons involved in the reviews as considered appropriate by the Audit Quality Review Committee. Training will be in the form of, but not limited to:

- a) Induction training - to deal with relevant legislation and procedures governing Audit Quality Reviews.
- b) Seminars purposely to include updates on policies and procedures governing Audit Quality Review.
- c) Discussion forums meant to act as a platform for discussing the review process and sharing of experiences.
- d) Attending courses tailored for reviewers such as may be facilitated by bodies such as Pan Africa Federation of Accountants (PAFA.)
- e) Exchange Programmes with other institutes running similar quality assurance programmes.
- f) Publications aimed at education for both reviewers and reviewees including those of other institutes provided the Audit Quality Review Committee approves them.
- g) Other relevant documents approved for use in the review programme.

### **6.8 Professional Indemnity Cover**

The institute shall take a blanket professional indemnity insurance cover for obligations that may arise out of the acts and or omissions of those associated with the review.

### **7.0. Reviewees**

**7.1** Reviewees will be practicing members of the Institute who perform audit work. Those who hold practicing certificates but not involved in audit work will not be subjected to review. Instead they will be required to complete an Annual Declaration Forms

**7.2** Reviewees will be selected using one or more of the following methods:

- Reviewees volunteering;
- Random selection or

- Selection based on other factors such as size, geographical location, Industry, availability of reviewers among others.
- A reviewee being referred to the Audit Quality Assurance Department by the Disciplinary Committee of the Institute for investigation.

**7.3** At the beginning of each calendar year, every practicing member shall provide his or her details to the Institute. Such details will include:

- a) Name & registration number;
- b) Practicing Certificate number;
- c) Business name (name of the practice), if any;
- d) Whether he has performed any audit work during the previous year and;
- e) Indicate whether he/she has signed any audit report in his name (as opposed to using the business name registered with the Institute).

#### **7.4 Reviewees shall be required to:**

- a) Provide the reviewers with unlimited access to records, which the review team may deem necessary for the purpose of the review;
- b) Provide any information in connection to the review;
- c) Include a clause in the audit engagement letter issued to the client to the effect that the working papers in connection with the audit may be subject to review during ICPAR Audit Quality Review Programme and that the practice unit shall provide any information relating to the client, which may be required for the purpose of the review.

### **8.0 Review materials**

The following policies shall be applicable with respect to Audit Quality Review materials:

- a) The Institute shall take responsibility for confidentiality of the review materials.
- b) Such materials shall be retained for a reasonable period of time after the completion of a review.

### **9.0 Cost of the review**

The initial first time reviews will be conducted at no cost to the reviewees. Subsequent reviews will be conducted at a cost to be determined by the Committee based on the recommendations arising from the reviews.

### **10.0 Methodological approach and fieldwork**

The methodological approach involved in Audit Quality Review can be defined in terms of four stages viz., planning, execution, reporting and follow-up which are discussed below:

#### **10.1 Planning**

Every practice unit, regardless of its size, is expected to have a system of quality control for its auditing practice. The quality control policies and procedures applicable to audit services provided by the firm should encompass 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.
- f) Monitoring.

The review team should obtain a sufficient understanding of the reviewed firm's system of quality control with respect to each of those five elements to plan the review.

In planning the review, the review team should use the understanding it has obtained of the reviewed firm's auditing practice and its system of quality control to assess the Audit Quality Review Risk associated with those areas.

The higher the assessed levels of Audit Quality Review risk, the greater the number of offices or engagements that needs to be reviewed.

As regards the selection of offices to visit, the following factors should be considered when determining the Audit Quality Review Risk at the office level:

- a) The number, size and geographical distribution of branches/offices
- b) The review team's evaluation of the firm's monitoring procedures
- c) Fees incomes generated per practice office and partner.
- d) The degree of centralization of accounting and auditing practice controls and supervision
- e) The assessed level of Audit Quality Review risk may be affected by circumstances arising within the firm (e.g., individual owners have engagements in numerous specialized industries or the firm has a few engagements constituting a significant portion of the firm's auditing practice) or outside the firm (e.g., new professional standards being applied for the first time or adverse economic developments in an industry).

The knowledge obtained should also be used to select the offices and the engagements to be reviewed, and to determine the nature and extent of the tests to be applied in the functional areas. The selection of engagements for review should be from a fair cross section of the audit practice under review. The matters that the reviewers should consider when evaluating the audit review risk at the engagement level include size, industry, level of service, turnover, significant client fees to a practice office(s) and a partner(s).

The steps to be followed include;

***a) Notification***

A practice unit shall be notified in writing about an impending practice review and will be sent questionnaires and evaluation forms deemed necessary for collating the appropriate planning information.

These include

- i). Pre-review information form. (*Appendix 3*)
- ii). Internal quality control questionnaires (*Appendices 4, 5 & 6*)
- iii). Internal quality control evaluations (*Appendices 7 & 8*)

The checklists above are designed to ensure that the reviewers:-

- Obtain a sufficient understanding of the nature and extent of the firm's auditing practice to plan the review. This understanding should include knowledge about the reviewed firm's organization philosophy, and the composition of its auditing practice.
- Obtain a sufficient understanding of the design of the firm's system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review.

***b) Return of the completed questionnaires and evaluation forms.***

The practice unit shall have to complete and return the checklists in (a) above, to the Institute within one month of receipt. The information will be used for planning the review.

In addition, the practice unit will be required to enclose a complete list of their attestation service clients and to provide any other information the reviewer considers necessary to facilitate the selection of a sample of attestation services clients' engagements.

***c) Sample of the audit services engagements***

From the complete audit services client list, the reviewer will select an initial sample. The practice unit will be given **one (1) month** to prepare all engagement files for the year under review in readiness for the review. The reviewer will then select an appropriate sample during the review based on the audit clients list earlier submitted by the practice unit.

***d) Confirmation of the visit***

In consultation with the practice unit, date(s) will be set for the on-site review to be carried out. Flexibility will be permitted to ensure that members are not inconvenienced especially during busy periods unless it is a referral from the Disciplinary Committee. The review will be planned with a view to having it completed within 2 months of the review visit. However, flexibility will be permitted to ensure that members are not inconvenienced.

**10.2 Execution**

**10.2.1 Visits.**

The Audit Quality Review visits will be conducted at the practice unit's head office or other office agreed between the practice unit and the reviewers.

**10.2.2 Entry Conference.**

An initial meeting will be held between the reviewer and the partner(s) of the practice unit under review to discuss the accuracy of the responses given in the questionnaires and evaluation forms, and to seek clarifications where necessary. This is to ensure that the reviewer has a full understanding of the internal quality control system to be able to form a preliminary evaluation of its adequacy.

**10.2.3 Compliance review- general controls.**

The reviewer will carry out a compliance review of general controls and evaluate the degree of reliance to be placed on them. Such general controls include:

- 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.
- f) Monitoring.

Practice units are expected to address each of the six areas listed above. In each control area there shall be supplementary questions and matters to consider.

The tests carried out should include the following:

- a) A review of the significant risk areas on selected engagements, including accounting and auditing documentation, and reports, to assess their conformity with professional standards and compliance with relevant firm quality control policies and procedures.
- b) Interview the firm's professional personnel at various levels to assess their understanding of and compliance with firm's quality control procedures.
- c) The reviewers should review other evidence as may be appropriate. For example, a review of personnel files, correspondence files documenting consultations on technical and ethical questions, files containing evidence on the firm's compliance with professional development requirements like continuous professional development (CPD)

#### **10.2.4. Selection of the attestation services engagements to be reviewed**

The number of attestation services engagements to be reviewed depends upon:

- a) The number of practicing members involved in the attestation services engagements in the practice unit.
- b) The degree of reliance placed, if any, on the general quality controls
- c) The total number of attestation services engagements undertaken by the practice unit for the period under review.
- d) The number of offices that the audit practice operates.

The engagements selected for review should be engagements carried out by the reviewee for the period of one year prior to the date of the review.

The engagements reviewed should be a balanced sample from a variety of different sized clients covering various industries so that they reflect overall performance of a practice unit.

#### **10.2.5 Performance of Review.**

The reviewer shall adopt a combination of both compliance and substantive approaches.

(a) The compliance approach is to assess whether proper controls and procedures have been established by the practice unit to ensure that attestation services are being performed in accordance with professional standards. The following key controls shall be considered:

i) Pre-engagement matters

ii) Planning which will entail:-

- Inquire from the firm the matters to be addressed in the written representations
- Obtain an understanding of the nature and extent of the firm's auditing practice to plan the review. In addition, obtain an understanding of the firm's system of quality control.
- Assess the engagement review risk.
- Use the knowledge obtained from the above to select the offices and the engagements to be reviewed.

iii) Assessment of internal control systems

iv) Design of audit programmes

v) Substantive tests

vi) Assessment of Audit conclusions & reports

viii) Financial statements presentation

Practice units should have procedures and documentations sufficient to cover each of the control areas.

(b) A substantive approach is adopted if the reviewer chooses not to place reliance on the practice unit's specific controls on the attestation engagements, or is of the opinion that the level of compliance is not satisfactory. This approach requires a review of the attestation



working papers in order to establish whether the attestation work has been carried out as provided in the professional standards.

For each engagement reviewed, the review team should document whether anything came to its attention that caused it to believe that:-

- i) The financial statements were not presented in all material respects in accordance with International Financial Reporting Standards.
- ii) The firm did not have a reasonable basis under applicable professional standards for the report issued.
- iii) The documentation on the engagement did not support the report issued.
- iv) The firm did not comply with its quality control policies and procedures in all material respects.

The following checklists will be used to guide the review team in execution of the review:

**a) Internal quality control checklist –Reviewees Copy (*Appendix 8*)**

This is to be filled by the practitioner and submitted to the Secretariat prior to the commencement of the field review.

**b) Engagement review checklist (*appendix 9*)**

To be used by the reviewer in respect of each audit file selected for review.

**c) Internal quality control checklist- (Reviewers' Copy) *Appendix 10***

This is to be filled by the reviewer in the course of the review.

**d) Annual Declaration Form (*Appendix 11*)**

This is to be completed by practitioners who do not intend to provide attest services during a particular year.

**e) *International Financial Reporting Standards Disclosure Checklist.***

This shall be used for the financial statements of the selected engagements. (Separate document).

**f) Checklists for other relevant legislation e.g. Companies Act. (Separate document)**

### **10.2.6 Exit Conference**

Prior to issuing its report and, if applicable, a letter of comments, the review team should communicate its conclusions to partner(s) of the reviewed firm at an exit conference, which may also be attended by representatives of the Audit Quality Assurance Committee and Council. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the review report and about the findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not have an effect on the report or letter of comments.

### **10.3. Reporting**

At the end of the review, a report will be issued to the reviewed firm with a copy to the Audit Quality Assurance Committee. The report will be issued on the letterhead of the Institute.

The written report should:-

- a) Indicate the scope of the review, including any limitations thereon.
- b) Indicate when (i.e. dates) when the review was carried out.
- c) Describe the general characteristics of the system of quality control for the auditing practice.
- d) Express an opinion on whether the system of quality control for the auditing practice of the reviewed firm had been designed in accordance with the quality control standards for an



auditing practice recommended by the Institute and was being complied with for the year reviewed to provide the firm with reasonable assurance of conforming with professional standards and, if applicable, describe the reason(s) for any qualification of the opinion.

### **10.3.1 Types of Reports Issued**

The following two types of reports can be issued i.e. unqualified and qualified:

#### **i) Unqualified report (Specimen in appendix 4)**

An unqualified report shall be furnished where systems and procedures **had not** been found to be deficient or where **No** significant instances of non-compliance with any other matter has been noted by the reviewer(s). Such a unit will be reviewed next within a period as shall be determined by the committee and communicated to the practice unit.

#### **i) Qualified Report**

A qualified report will be issued in the following circumstances:

a) If at the end of a review, there are areas where systems and procedures had been found to be deficient or where non-compliance with any other matter has been noted by the reviewer(s). In such circumstances the reviewed firm will be furnished with a first written report, to be known as a preliminary report. The practice unit shall have 21 days from the date the report is received from the reviewer to make any submissions or representations in writing, to the reviewer, on the issues raised in the preliminary report. If the reviewer is satisfied with the submissions by the practice unit, he shall issue an unqualified report as above.

b) If the reviewer is not satisfied with the submissions, a qualified report either on one or more of the following grounds shall be issued:-

i) Deficiencies in design on the quality control policies and procedures (*Specimen in appendix 5*)

ii) Non-compliance with the quality control policies and procedures (*Specimen in appendix 6 & 7*)

c) A qualified report should also be issued when the scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternative procedures. For example, as indicated in the Standards, a review team may be able to apply appropriate alternative procedures when one or more engagements have been excluded from the scope of the review for legitimate reasons but ordinarily would be unable to apply alternative procedures when a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began. A reviewer who is considering qualifying the review report for a scope limitation should consult with the Audit Quality Assurance Committee.

### **10.4 Follow-Up**

The Audit Quality Assurance Committee upon receipt of the report will take different actions depending on the nature of the report and demands thereon:

#### **10.4.1 An unqualified report**

The practice will be advised that the next review will be conducted within a specified period unless it is a referral from the Disciplinary Committee.

#### *Minor deficiencies*

Minor deficiencies in design of quality control policies and procedures and/ or minor deficiencies in compliance with quality control policies and procedures.

The Practice unit will be required to furnish in writing a detailed proposal of the steps the practice will take to remedy the situation. All the issues that will require action by the firm will be outlined in a communication to be known as a letter of comments emanating from the Audit Quality Assurance Committee. If the proposal is acceptable, the firm will be granted a go ahead with the commitment, subject to a re- review at the end of one year of the date of acceptance of the proposal as a process of monitoring the progress.

If the results of the re-review are still not satisfactory, Council will prescribe some form of training at the cost of the member (s) and schedule a third review at the end of one year after completion of the prescribed training.

### **10.4.2 Qualified Reports**

#### *Major Deficiencies*

Major deficiencies in design of quality control policies and procedures and/ or major deficiencies in compliance with quality control policies and procedures.

The Practice unit will be required to furnish in writing a detailed proposal of the steps the practice will take to remedy the situation. This proposal will be in response to the letter of comments issued by the Audit Quality Assurance Committee. If the proposal is acceptable, the firm will be granted a go ahead with the commitment, subject to a re- review at the end of 12 months of the date of the acceptance of the commitment as a process of monitoring the progress. If the results of the re-review are not satisfactory Council will prescribe some form of training at the cost of the member (s) and schedule a third review at the end of 6 months after completion of the prescribed training.

During the training period the practice will not be allowed to sign any audit report in its name but can make arrangements with a practice unit that has had a satisfactory review who would take responsibility for the work. If a practice after the training is not able to demonstrate capacity to practice, Council will consider referring the matter to the Institute's Disciplinary Committee for further investigation and action in accordance with the Accountants Act.

#### *Limitation of Scope*

In case of a qualification on limitation of scope, Council would commission an investigation immediately and have a report in that respect. If the results of the investigation are adverse, Council will take appropriate action as indicated in (a), (b) and (c) but with an additional consideration of referring the matter to the Institute's Disciplinary Committee for further investigation and action in accordance with the Accountants Act.

#### *Fraud*

If a member(s) is found to have been involved in fraud, Council will refer the matter to the Institute's Disciplinary Committee for further investigation and action in accordance with the Accountants Act .

## Appendix 1

### 1. Statement of Confidentiality

In accordance with the framework on Audit Quality Review, this statement of confidentiality is to be completed by the person(s) who are responsible for the conduct of Audit Quality Reviews i.e. reviewers, members of the Audit Quality Assurance Committee, Council and others who assist them, individually. The reviewer shall be responsible for taking this undertaking from all those persons who assist him/her or are likely to assist him/her in conducting Audit Quality Reviews, and shall send the same to the Audit Quality Assurance Committee. This statement of confidentiality should be reviewed every year.

#### To the Chairperson

**Audit Quality Assurance Committee,**

**The Institute of Certified Public Accountants of Rwanda**

Dear Sir/ Madam

I hereby declare that my attention has been drawn to the need for confidentiality in the conduct of Audit Quality Reviews. I therefore undertake and assure in so far as any of the following relate to me or are brought to my knowledge/attention in any manner whatsoever; I will ensure that on my part;

- Working papers shall always be kept securely so that unauthorized access is not gained by anyone.
- The practice unit's audit services procedures shall not be disclosed to third parties.
- Any information with regard to any matter coming to my knowledge in the performance or in assisting in the performance, of any function during the conduct of Audit Quality Reviews shall not be disclosed to third parties or used for any purpose other than that for which it was intended.
- Access to any record, document or any other material, in any form which is in my possession, or under my control, by virtue of my being or having been so appointed or my having performed or having assisted any other person in the performance of such a function, shall not at any time be permitted to any other person.

I understand that any breach of the provisions regarding confidential information contained in the statement on Audit Quality Review will be considered as gross negligence and subject to investigation, will result in appropriate action.

**Name:** \_\_\_\_\_ **Signature:** \_\_\_\_\_

**Designation:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Place:** \_\_\_\_\_

**Taken on record by (Name):**

\_\_\_\_\_  
**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Designation:** \_\_\_\_\_

## Appendix 2

### 2. Statement of Independence

Any member of a review team should assess his independence and preclude him/her self from a review where he/she is of the opinion that his/ her independence will be impaired.

Circumstances which may result to impairment of independence, include but are not limited to;

1. Where a member of a review team has invested in an engagement(s) selected for review. Some engagements will be selected at random during the fieldwork in which case it is expected that review team members will declare their interests to ensure that only those whose independence will not be impaired review such engagements.
2. Review team members shall consider any family or other relationships they have with the management at organizational and functional levels of the engagement clients selected and the firm to be reviewed and should assess the possibility of an impairment of independence.
3. Review team members should not have conducted audit assignments on behalf of the firm to be reviewed for a period of at least two years preceding the intended review. This precludes one from the possibility of reviewing engagements in which he/she might have been involved.
4. No review team member shall review an engagement client in which he/she has business interests. e.g. partnerships, joint ventures, supplier, client etc.

I understand that any breach of the provisions regarding independence contained in the statement on Audit Quality Review will be considered as gross negligence and subject to investigation, will result in appropriate action.

**Name:** \_\_\_\_\_ **Signature:** \_\_\_\_\_  
**Designation:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
**Place:** \_\_\_\_\_  
**Taken on record on by (Name):** \_\_\_\_\_  
**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_  
**Designation:** \_\_\_\_\_

### Appendix 3

#### ICPAR AUDIT QUALITY REVIEW

Private and Confidential

#### PRE-REVIEW INFORMATION FORM

REVIEW CODE

In order to protect the anonymity of your practice you do not need to reveal the name of the practitioner who has completed this form.

1. Type of practice:-

**SOLE PRACTITIONER**

Full-time

No. of offices

Part-time

No. of Professional Staff

**PARTNERSHIP**

No. of partners

No. of Professional Staff

No. of offices

2. Do you have documented quality control procedures in respect of all engagements where the attest function is performed?

Y

N

3. Do you have an Internal Audit Quality Review Programme?  
Give a brief description thereof.

Y

N

---

---

---

4. Can the Audit Quality Review be conducted at your offices?

Y

N

5. Where are your offices situated (Physical location)?

---

---

---

6. Rough estimate of annual hours spent performing attest function assignments (practitioner and staff) as a percentage of the firm's annual time.
7. Client list is to be furnished in respect of all audit clients of the practice unit. This list should reflect at least the client's name, the practitioner responsible for the assignment, the type of industry in which the client operates, the fee, and the hours taken to perform the fieldwork and the date latest audit report was signed for each of the audit clients. Every client where the attest function is performed must appear on the list in order for the committee to make a selection from the entire population.

Type of industry in which each client operates must be provided in order for the Professional Standards Committee to engage a suitable reviewer.

Examples of types of industry are:

- Banking /Financial Services
- Construction
- Technology, Communications
- Engineering
- Insurance
- Manufacturing
- Mining
- Professional (e.g. Architects, lawyers, medical practitioners)
- Property
- Retail

Signature \_\_\_\_\_ Designation \_\_\_\_\_

ICPAR Membership Registration Number \_\_\_\_\_

Date \_\_\_\_\_

## Appendix 4

### **SPECIMEN UNQUALIFIED REPORT ON PRACTICE REVIEW**

To AB & Co.

Certified Public Accountants

We have reviewed the system of quality control for the auditing practice of AB& Co. in effect for the year ended 31st December 20xx.

Our review which commenced on — and ended on — was conducted in conformity with standards established by the ICPAR. We tested compliance with the firm's system of quality control to the extent we considered appropriate. These tests included a review of selected auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by ICPAR. Those standards require that a firm's quality control policies and procedures should be appropriately, comprehensively and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in an individual's performance and understanding of professional requirements, or the firm's prescribed quality control policies and procedures can affect the degree of compliance with a firm's prescribed quality control policies and procedures and therefore, the effectiveness of the system.

In our opinion, the system of quality control for the auditing practice of AB& Co. in effect for the year ended 31st December 20xx, has been designed in accordance with the quality control standards for an auditing practice established by the ICPAR and was being complied with for the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of the practice.

Reviewer's Name:..... Signature:.....

Date:.....

cc: Audit Quality Assurance Committee

## Appendix 5

### **SPECIMEN QUALIFIED AUDIT QUALITY REVIEW REPORT QUALIFIED ON DESIGN DEFICIENCY**

To AB & Co.

Certified Public Accountants

We have reviewed the system of quality control for the auditing practice of AB& Co. in effect for the year ended 31st December 20xx.

Our review which commenced on — and ended on — was conducted in conformity with standards established by the ICPAR. We tested compliance with the firm's system of quality control to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by ICPAR.. Those standards indicate that a firm's quality control policies and procedures should be appropriately, comprehensively and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in an individual's performance and understanding of professional requirements, or the firm's prescribed quality control policies and procedures can affect the degree of compliance with a firm's prescribed quality control policies and procedures and therefore, the effectiveness of the system.

As discussed in our letter of comments under this date, our review disclosed that the firm's quality control policies and procedures for engagement performance regarding audit planning were not appropriately designed.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of AB& Co. in effect for the year ended 31st December 20xx ,has been designed in accordance with the quality control standards for an auditing practice established by the ICPAR and was being complied with for the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of the practice.

Reviewer's Name:..... Signature:.....

Date:.....

cc: Audit Quality Assurance Committee



## Appendix 6

### **SPECIMEN QUALIFIED AUDIT QUALITY REVIEW REPORT QUALIFIED FOR NONCOMPLIANCE WITH QUALITY CONTROL POLICIES AND PROCEDURES**

To AB & Co.  
Certified Public Accountants

We have reviewed the system of quality control for the auditing practice of AB& Co. in effect for the year ended 31st December 20xx.

Our review which commenced on — and ended on — was conducted in conformity with standards established by the ICPAR. We tested compliance with the firm's system of quality control to the extent we considered appropriate. These tests included a review of selected auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by ICPAR. Those standards require that a firm's quality control policies and procedures should be appropriately, comprehensively and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in an individual's performance and understanding of professional requirements, or the firm's prescribed quality control policies and procedures can affect the degree of compliance with a firm's prescribed quality control policies and procedures and therefore, the effectiveness of the system.

As discussed in our preliminary report dated —, our review disclosed that the firm's quality control policies and procedures for engagement performance regarding completion of financial statements reporting and disclosure checklists were not followed.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the auditing practice of AB & Co. in effect for the year ended 31st December 200xx, has been designed in accordance with the quality control standards for an auditing practice established by the ICPAR and was being complied with for the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of the practice.

Reviewer's Name:..... Signature:.....  
Date:.....  
cc: Audit Quality Assurance Committee

## Appendix 7

### SPECIMEN ADVERSE AUDIT QUALITY REVIEW REPORT

To AB& Co.  
Certified Public Accountants

We have reviewed the system of quality control for the auditing practice of AB& Co. in effect for the year ended 31st December 20xx.

Our review which commenced on — and ended on — was conducted in conformity with standards established by the ICPAR. We tested compliance with the firm's system of quality control to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards issued by ICPAR. Those standards indicate that a firm's quality control policies and procedures should be appropriately, comprehensively and suitably designed in relation to the firm's size, organizational structure, operating policies, and the nature of its practice. They state that variance in an individual's performance and understanding of professional requirements, or the firm's prescribed quality control policies and procedures can affect the degree of compliance with a firm's prescribed quality control policies and procedures and therefore, the effectiveness of the system.

As discussed in our preliminary report under this date, our review disclosed several failures to adhere to professional standards in reporting on material departures from International Financial Reporting Standards and in applying International Standards on Auditing. In particular, our review disclosed that the firm's quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit programme, which is required by International Standards on Auditing. In addition, our review disclosed failures to complete financial statements reporting and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by the firm's policy.

In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the auditing practice of AB& Co. in effect for the year ended 31st December, did not provide the firm with reasonable assurance of conforming to professional standards in the conduct of the practice.

Reviewer's Name:..... Signature:.....

Date:.....

cc: Audit Quality Assurance Committee

## Appendix 8

**Private & Confidential**

### ICPAR AUDIT QUALITY REVIEW

#### INTERNAL QUALITY CONTROL QUESTIONNAIRE

PRACTICE NO.

This questionnaire requires you to identify your firm's policies and procedures in respect of audit quality control, as envisaged in ISQC 1 – Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. The Standard requires that such policies and procedures be documented and communicated to the firm's personnel. Please identify in the box below the manuals, documents or databases that contain such policies and procedures (eg audit manual, quality control manual, risk management manual, human resources manual, staff handbook, etc)

In the table below please cross-reference each item to the relevant document or database identified above.

The references given in the column headed ISQC are to the relevant paragraphs of ISQC 1.

	Identify, in the last two columns, the policies and procedures your firm has established:	ISQC 1	Manual/document (see above)	Relevant sections or paragraphs
1	<b>LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM</b>			
1.1	To promote an internal culture based on the recognition that quality is essential in performing engagements.	9		
2	<b>ETHICAL REQUIREMENTS</b>			
2.1	to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements	14		
3	<b>INDEPENDENCE</b>			

	Identify, in the last two columns, the policies and procedures your firm has established:	ISQC 1	Manual/document (see above)	Relevant sections or paragraphs
3.1	To provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by the IFAC code.	18		
3.2	to communicate its independence requirements to its personnel and others subject to independence requirements	18(a)		
3.3	for identifying and evaluating circumstances that create threats to independence, and for demonstrating that it has taken appropriate action to eliminate those threats or reduce them to an acceptable level	18(b)		
3.4	to provide it with reasonable assurance that it is notified of breaches of independence requirements, and that it has taken appropriate action to resolve such situations	20		
3.5	for obtaining, at least annually, written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the IFAC Code	23		
3.6	regarding the rotation of senior personnel, including the engagement leader, on an audit engagement over a long period of time	25		
4	<b>ACCEPTANCE AND CONTINUANCE OF AUDIT ENGAGEMENTS</b>			
4.1	for recording its decisions to accept or continue an audit engagement	28		
5	<b>HUMAN RESOURCES</b>			

	Identify, in the last two columns, the policies and procedures your firm has established:	ISQC 1	Manual/document (see above)	Relevant sections or paragraphs
5.1	<p>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 requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. Please identify these under the following headings:</p> <ul style="list-style-type: none"> <li>▪ Recruitment</li> <li>▪ Performance evaluation</li> <li>▪ Professional education</li> <li>▪ Continuing professional development</li> <li>▪ Work experience</li> <li>▪ Coaching</li> <li>▪ Career development</li> <li>▪ Promotion</li> <li>▪ Compensation</li> <li>▪ The estimation of personnel needs (capacity)</li> </ul>	36 37 38		
6	<b>ASSIGNMENT OF ENGAGEMENT TEAMS</b>			

	Identify, in the last two columns, the policies and procedures your firm has established:	ISQC 1	Manual/document (see above)	Relevant sections or paragraphs
6.1	<p>to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> <li>▪ The identity and role of the engagement partner are communicated to key members of client management and those charge with governance</li> <li>▪ The engagement partner has the appropriate capabilities, competence, authority and time to perform the role</li> <li>▪ The responsibilities of the engagement partner are clearly defined and communicated to that partner</li> <li>▪ Appropriate staff are assigned with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory requirements, and to enable the firm or engagement partners to issue reports that are appropriate</li> </ul>	<p>42</p> <p>44</p>		
7	<b>ENGAGEMENT PERFORMANCE</b>			
7.1	<p>To provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances.</p> <p>Specifically, identify the policies and procedures relating to:</p> <ul style="list-style-type: none"> <li>▪ Briefing</li> <li>▪ Staff training</li> <li>▪ Coaching</li> <li>▪ Review and supervision</li> <li>▪ Documentation standards</li> <li>▪ Keeping up-to-date</li> </ul>	46		
8	<b>CONSULTATION</b>			

	Identify, in the last two columns, the policies and procedures your firm has established:	ISQC 1	Manual/document (see above)	Relevant sections or paragraphs
8.1	to provide it with reasonable assurance that: <ul style="list-style-type: none"> <li>▪ Appropriate consultation takes place on difficult or contentious matters</li> <li>▪ Sufficient resources are available to enable appropriate consultation to take place</li> <li>▪ The nature and scope of such consultations are documented</li> <li>▪ Conclusions resulting from consultations are documented and implemented</li> </ul>	51		
9	<b>DIFFERENCES OF OPINION</b>			
9.1	for dealing with differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer	57		
10	<b>ENGAGEMENT QUALITY CONTROL REVIEW</b>			
10.1	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.	60		
10.2	setting out: <ul style="list-style-type: none"> <li>▪ The nature, timing, and extent of an engagement quality control review</li> <li>▪ Criteria for the eligibility of engagement quality control reviewers, and</li> <li>▪ Documentation requirements for an engagement quality control review</li> </ul>	63		
10.3	addressing the appointment of engagement quality control reviewers and establishing their eligibility	68		
10.4	On documentation of the engagement quality control review	73		

	Identify, in the last two columns, the policies and procedures your firm has established:	ISQC 1	Manual/document (see above)	Relevant sections or paragraphs
11	<b>MONITORING</b>			
11.1	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?	74		
12	<b>COMPLAINTS AND ALLEGATIONS</b>			
12.1	to provide it with reasonable assurance that it deals appropriately with: <ul style="list-style-type: none"> <li>Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory requirements</li> <li>Allegations of non-compliance with the firm's system of quality control</li> </ul>	89		



In addition, please provide the following information:

	Question	ISQC	Response
1	Identify the person assigned operational responsibility for the firm's quality control system.	9	
2	Please provide a CV of that person.	12	
3	Does your firm obtain, at least annually, written confirmation of compliance with its policies and procedures on independence from all personnel required to be independent by the IFAC Code (ISQC 1, paragraph 23)?	23	
4	Has a periodic inspection of a selection of completed engagements by partners or staff independent of the engagement teams been carried out within the last three years?	78	
5	If the answer to the question 4 is yes, please state: <ul style="list-style-type: none"> <li>• The date of the inspection</li> <li>• Was a report on the inspection produced?</li> <li>• Will that report be available for inspection by the Quality Reviewers?</li> </ul>		

**Completed by:**

Name \_\_\_\_\_ Designation \_\_\_\_\_

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

## Appendix 9

**Private & Confidential**

### ICPAR AUDIT QUALITY REVIEW

#### ENGAGEMENT REVIEW CHECKLIST

REVIEW CODE

REVIEWER

DATE OF REVIEW

CLIENT CODE

ENGAGEMENT YEAR END

What type of company was audited?

☐

Listed

☐

Financial services

☐

Subsidiary of foreign company

☐

Private

Industry:

☐

Banking

☐

Insurance

☐

Manufacturing

☐

Other (specify)

This questionnaire has been designed to help the reviewer assess whether the audit under review was conducted in accordance with International Standards on Auditing (ISA). It acts as a guide to the key, but not all, requirements of those standards. The questions are cross-referenced to the standards, 220.10, for example, referring to paragraph 10 of ISA 220.

Items in bold are those requirements considered to be fundamental. A “no” answer against a bold question is more likely to lead to an unsatisfactory conclusion overall.

An auditor has to exercise judgment in determining what evidence to obtain to support the opinion. Likewise, a reviewer has to exercise judgment in determining whether the auditor has complied with ISAs.

		ISA Ref	Yes	No	N/A	COMMENTS
1	<b>PRE-ENGAGEMENT</b>					
1.1	Is there evidence that the engagement partner was satisfied that appropriate procedures regarding the acceptance and continuance of the audit engagement had been followed, and that conclusions reached in this regard were appropriate and had been documented?	220.14				
1.2	For new clients had the auditor written to the previous auditor and confirmed that he/she could accept the assignment?	300.28 (b)				
1.3	Is there evidence that the auditor and the client agreed on the terms of engagement? The agreed terms would need to be recorded in an engagement letter.	210.2				
1.4	Does the engagement letter cover: <ul style="list-style-type: none"> <li>▪ Objective and scope of the audit</li> <li>▪ Management's responsibility for the financial statements</li> <li>▪ The applicable financial reporting framework (IFRS)</li> <li>▪ The form of any reports or other communication</li> <li>▪ The fact that due to inherent limitations there is a risk that some material misstatement may remain undiscovered</li> <li>▪ Unrestricted access to records and information requested?</li> </ul>	210.6				
1.5	Has the auditor considered whether circumstances require the terms of the engagement letter to be revised and whether there is a need to remind the client of the existing terms of engagement?	210.10				
1.6	Is there evidence that the engagement partner has considered whether members of the engagement team have complied with ethical requirements?	220.8				
1.7	Did the engagement partner form and record a conclusion on compliance with independence requirements that apply to the audit engagement	220.12				
1.8	Is there evidence that the engagement partner was satisfied that the engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and to enable an auditor's report that is appropriate in the	220.19				

		ISA Ref	Ye s	No	N/A	COMMENTS
	circumstances to be issued?					
1.9	<b>For audits of financial statements of listed entities, did the engagement partner determine that an engagement quality control reviewer had been appointed?</b>	220.36 (a)				
2	<b>PLANNING</b>					
2.1	<b>Has the auditor developed and documented an overall audit strategy for the audit?</b>	300.8 300.22				
2.2	Does the overall audit strategy include the auditor's: <ul style="list-style-type: none"> <li>• Determination of scope, such as the financial reporting framework used, industry specific reporting requirements, and locations of the entity</li> <li>• Ascertainment of the reporting objectives, including deadlines for final reporting and key dates for expected communications with management</li> <li>• Consideration of important factors such as materiality levels, preliminary identification of material components and preliminary risk assessments, effectiveness of internal controls, and significant financial reporting developments</li> </ul>	300.9				
2.3	<b>Has the auditor developed and documented an audit plan for the audit?</b>	300.13 300.22				
2.4	Does the audit plan include: <ul style="list-style-type: none"> <li>• a description of the nature, timing and extent of planned risk assessment procedures</li> <li>• a description of the nature, timing and extent of planned further audit procedures, including whether to test the operating effectiveness of controls</li> <li>• Such other procedures required to be carried out to comply with ISAs?</li> </ul>	300.15				

		ISA Ref	Ye s	No	N/A	COMMENTS
2.5	Has the auditor planned the nature, timing and extent of direction and supervision of engagement team members and review of their work?	300.18				
2.6	In planning the audit did the auditor specifically consider the risk of material misstatement due to fraud?	240.3 240.17				
3	<b>UNDERSTANDING THE ENTITY, INCLUDING INTERNAL CONTROL</b>					
3.1	<b>Did the auditor obtain, and document the key aspects of, an understanding of:</b> <ul style="list-style-type: none"> <li>the industry, regulatory, and other external factors, including the applicable financial reporting framework</li> <li>nature of the entity, including business operations, and financing</li> <li>the entity's selection and application of accounting policies</li> <li>the entity's objectives and strategies and the related business risks that may result in a material misstatement of the financial statements</li> <li>the measurement and review of the entity's financial performance</li> <li>Internal control relevant to the audit?</li> </ul>	315.20				
3.2	<b>Did the auditor apply analytical procedures (analysis of ratios and trends) at the planning stage to assist in understanding the entity and its environment?</b>	520.8				
3.3	<b>Did the auditor obtain an understanding of the control environment?</b>	315.67				
3.4	<b>Did the auditor obtain, and document the key aspects of, an understanding of the entity's information system relevant to financial reporting, including:</b> <ul style="list-style-type: none"> <li>the classes of transactions significant to the entity's financial statements</li> <li>the procedures by which those transactions are initiated, recorded,</li> </ul>	315.81				

		ISA Ref	Yes	No	N/A	COMMENTS
	<ul style="list-style-type: none"> <li>processed and reported in the financial statements</li> <li>the related accounting records and supporting information</li> <li>how the system captures events and conditions, other than classes of transactions, that are significant to the financial statements</li> <li>the financial reporting process used to prepare the entity's financial statements, including significant estimates and disclosures</li> </ul>					
3.5	<b>Did the auditor obtain, and document the key aspects of, an understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks</b>	300.90				
3.6	<b>Did the auditor obtain an understanding of how the entity has responded to risks arising from IT?</b>	315.93				
3.7	<b>Did the auditor obtain, and document the key aspects of, an understanding of the major types of activities that the entity uses to monitor internal control over financial reporting, and how the entity initiates corrective actions to its controls.</b>	315.96				
3.8	<b>Is there evidence that the auditor made enquiries of management regarding:</b> <ul style="list-style-type: none"> <li>management's assessment of the risk of material misstatement due to fraud</li> <li>Management's process for identifying and responding to the risks of fraud in the entity?</li> </ul>	240.34				
3.9	<b>Is there evidence that the engagement team discussed the susceptibility of the entity's financial statements to material misstatements</b>	315.14				
3.10	<b>Is there evidence that the engagement team discussed the susceptibility of the entity's financial statements to material misstatement due to fraud?</b>	240.27 240.17				
3.11	<b>Did the auditor make inquiries of management to determine whether they have knowledge of any actual, suspected or alleged fraud affecting</b>	240.38				

		ISA Ref	Yes	No	N/A	COMMENTS
	the entity?					
3.1 2	Did the auditor obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks?	240.43				
3.1 3	Did the auditor make enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity?	240.46				
3.1 4	Where the financial statements contain significant fair value measurements and disclosures, is there evidence that the auditor obtained an understanding of the entity's process for determining fair value measurements and disclosures and of the relevant control procedures sufficient to identify and assess the risks and to design and perform further audit procedures?	545.10				
4	<b>RISK ASSESSMENT PROCEDURES</b>					
4.1	Did the auditor identify and assess risks of material misstatement at the financial statement level, and at the assertion level for transactions, balances and disclosures?	315.100				
4.2	As part of the assessment above, did the auditor determine which of the risks identified risks that require special audit consideration are?	315.108				
4.3	Did the auditor identify and assess the risks of material misstatement due to fraud at the financial statement level and at the assertion level?	240.57				
4.4	Is there evidence that the auditor has considered whether the information obtained indicates that fraud risk factors are present?	240.48				
4.5	Is there evidence that the auditor determined whether the use of external confirmations (e.g. from banks, debtors, etc) is necessary to obtain sufficient appropriate audit evidence at the assertion level? (In	505.2				

		ISA Ref	Ye s	No	N/A	COMMENTS
	<b>making this determination, the auditor should have considered the assessed risk of material misstatement and how the evidence from other planned audit procedures will reduce the risk of material misstatement to an acceptably low level.)</b>					
5	<b>INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES</b>					
5.1	<b>For initial audit engagements did the auditor obtain sufficient appropriate audit evidence that:</b> <ul style="list-style-type: none"> <li>the opening balances did not contain misstatements that materially effect the current period's financial statements</li> <li>the prior period's closing balances had been correctly brought forward to the current period or, when appropriate, had been restated</li> <li>Appropriate accounting policies had been consistently applied or changes in accounting policies had been properly accounted for and adequately disclosed?</li> </ul>	510.2				
6	<b>INTERNAL AUDIT (where relevant to the audit)</b>					
6.1	Is there evidence that the auditor considered the activities of internal auditing and their effect, if any, on external audit procedures?	610.2				
6.2	Did the auditor obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement and to design and perform further audit procedures?	610.9				
6.3	Did the auditor perform an assessment of the internal audit function?	610.11				
6.4	<b>When the external auditor intended to use the specific work of internal auditing, did the external auditor evaluate and test that work to confirm its adequacy?</b>	610.16				
7	<b>RESPONDING TO ASSESSED RISKS</b>					



		ISA Ref	Yes	No	N/A	COMMENTS
7.1	<b>Did the auditor determine overall responses to assessed risks at the financial statement level and at the assertion level?</b>	330.3, 4 & 7				
7.2	When the auditor's assessment of risks of material misstatement at the assertion level included an expectation that controls are operating effectively, did the auditor perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively?	330.23				
7.3	When the auditor has determined that it is not possible to reduce the risks of material misstatement to an acceptably low level with evidence obtained only from substantive procedures, did the auditor perform tests of relevant controls to obtain evidence about their operating effectiveness?	330.25				
7.4	When the auditor obtained evidence about the operating effectiveness of controls during an interim period, did the auditor determine what additional evidence should be obtained for the remaining period?	330.37				
7.5	Did the auditor determine overall responses to address the assessed risks of fraud at the financial statement level and at the assertion level?	240.61				
7.6	To respond to the risk of management override of controls, did the auditor design and perform audit procedures to: <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries</li> <li>• review accounting estimates for biases</li> <li>• obtain an understanding of significant transactions outside of the normal course of business for the entity?</li> </ul>	240.76				
8	<b>DOCUMENTATION AND AUDIT EVIDENCE</b>					
8.1	<b>Are you satisfied that the auditor has documented all matters which are important in providing audit evidence to support the auditor's opinion?</b>	230.2				
8.2	<b>Are the working papers sufficiently complete and detailed to provide an overall understanding of the audit?</b>	230.5				
8.3	<b>Do the working papers record the nature, timing and extent of the audit procedures performed, the results thereof, and the conclusions drawn</b>	230.6				

		ISA Ref	Yes	No	N/A	COMMENTS
	<b>from the evidence obtained?</b>					
8.4	Where necessary, has the overall strategy and the audit plan been updated and changed during the course of the audit?	300.16				
8.5	<b>Do the working papers indicate who performed the audit procedures and when they were performed?</b>	230.11				
8.6	<b>Is there evidence that the audit work performed by assistants was supervised and reviewed?</b>	230.11				
8.7	Irrespective of the assessed risk of material misstatement, did the auditor design and perform substantive procedures for each material class of transactions?	330.49				
8.8	When designing audit procedures, did the auditor determine appropriate means of selecting items for testing?	530.22				
8.9	When inventory is material to the financial statements, did the auditor obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable?	501.5				
8.10	Did the auditor carry out procedures in order to become aware of any litigation and claims involving the entity which might have resulted in a material misstatement of the financial statements?	501.32				
8.11	When litigation or claims have been identified or when the auditor believes they may exist, did the auditor seek and obtain direct communication with the entity's advocates?	501.33				
8.12	When long-term investments are material to the financial statements, did the auditor obtain sufficient appropriate audit evidence regarding their valuation and disclosure?	501.38				
8.13	When segment information is material to the financial statements, did the auditor obtain sufficient appropriate audit evidence regarding its presentation and disclosure in accordance with IFRS? [Note: segment information is required only for listed companies]	501.42				
8.1	If confirmation procedures were carried out (e.g. by circularizing accounts	505.30				

		ISA Ref	Yes	No	N/A	COMMENTS
4	receivable) did the auditor maintain control over the process of selecting those to whom a request will be sent, the preparation and sending of the confirmation requests, and the responses to those requests?					
8.1 5	Did the auditor perform alternative procedures where no response was received to a positive external confirmation test?	505.31				
8.1 6	Is there evidence that the auditor evaluated whether the results of the external confirmation process together with the results from any other procedures performed, provide sufficient appropriate audit evidence regarding the financial statement being audited?	505.36				
8.1 7	If analytical procedures identified significant fluctuations or relationships that were inconsistent with other relevant information or that deviate from predicted amounts, did the auditor investigate and obtain adequate explanations and appropriate corroborative evidence?	520.17				
8.1 8	Where the financial statements contain significant accounting estimates, did the auditor obtain sufficient appropriate audit evidence as to whether the accounting estimate was reasonable in the circumstances and, when required, was appropriately disclosed?	540.8				
8.1 9	Where the financial statements contain significant fair value measurements and disclosures, is there evidence that the auditor evaluated whether the significant assumptions made by management in measuring fair values provided a reasonable basis for the fair value measurements and disclosures?	545.39				
8.2 0	Where relevant, is there evidence that the auditor tested the data used to develop fair value measurements and disclosures and evaluated whether the fair value measurements had been properly determined from such data and management's assumptions?	545.50				
8.2 1	<b>Did the auditor perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party</b>	550.2				

		ISA Ref	Yes	No	N/A	COMMENTS
	<b>transactions that are material to the financial statements?</b>					
8.2 2	When the auditor uses the work of another auditor, did the auditor determine how the work of the other auditor would affect the audit (refer to ISA 600 for details)?	600.2				
8.2 3	When using the work performed by an expert, did the auditor obtain sufficient appropriate audit evidence that such work was adequate for the purposes of the audit (refer to ISA 620 for details)	620.2				
8.2 4	Did the auditor's substantive procedures include: <ul style="list-style-type: none"> <li>agreeing the financial statements to the underlying accounting records</li> <li>examining material journal entries made during the course of preparing the financial statements</li> </ul>	330.50				
8.2 5	Did the auditor determine whether the comparatives comply in all material respects with the financial reporting framework relevant to the financial statements being audited?	710.2				
9	<b>COMPLETION</b>					
9.1	Did the auditor apply analytical procedures at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole were consistent with the auditor's understanding of the entity, and whether they indicate a previously unrecognized risk of material misstatement due to fraud?	520.13 240.85				
9.2	<b>When the auditor identified a misstatement, did the auditor consider whether such misstatement may be indicative of fraud?</b>	240.86				
9.3	<b>Is there evidence that the auditor considered the effect of subsequent events (up to the date of the auditor's report) on the financial statements and auditor's report?</b>	560.2				
9.4	<b>Is there evidence that, based on the audit evidence obtained, the auditor determined whether a material uncertainty existed related to events or</b>	570.30				

		ISA Ref	Yes	No	N/A	COMMENTS
	<b>conditions that might have cast significant doubt on the entity's ability to continue as a going concern?</b>					
9.5	<p><b>Did the auditor obtain written representations from management on matters material to the financial statements when other sufficient appropriate evidence could not reasonably be expected to exist?</b> This should include, where relevant, but is not limited to:</p> <ul style="list-style-type: none"> <li>management acknowledging its responsibility for the design and implementation of internal control to prevent and detect error</li> <li>management acknowledging its responsibility for the design and implementation of internal control to prevent and detect fraud</li> <li>confirmation that management believes the effects of uncorrected misstatement aggregated by the auditor are immaterial (a summary of such items should be attached to the letter)</li> <li>management acknowledging their responsibility for fair presentation in accordance with IFRS</li> <li>confirmation that management have disclosed to the auditor its knowledge of fraud or suspected frauds involving management, employees or others</li> <li>representation that management has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements</li> <li>the reasonableness of significant assumptions relevant to fair value measurements or disclosures</li> <li>confirmation of the completeness of information regarding identification of related parties and the adequacy of related party disclosures in the financial statements.</li> </ul> <p>(Refer to the Appendix of ISA 580 for an example of a management representation letter.)</p>	<p>580.4</p> <p>580.5a</p> <p>240.90a</p> <p>580.5b</p> <p>580.3</p> <p>240.90c</p> <p>250.23</p> <p>545.63</p> <p>550.15</p>				

		ISA Ref	Ye s	No	N/A	COMMENTS
9.6	Is there evidence that the engagement partner has taken responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and for the auditor's report that is issued to be appropriate in the circumstances?	220.21				
9.7	Is there evidence that, before the auditor's report is issued, the engagement partner, through review of the documentation and discussion with the engagement team, was satisfied that sufficient appropriate audit evidence had been obtained to support the conclusions reached and for the auditor's report to be issued?	220.26				
9.8	Is there evidence that the engagement partner has been responsible for the engagement team undertaking appropriate consultation on difficult or contentious issues, and has determined that conclusions resulting from consultations have been implemented?	220.30				
9.9	For audits of financial statements of listed entities is there evidence that the engagement quality control reviewer has formed an objective evaluation of: <ul style="list-style-type: none"> <li>the significant judgments made by the engagement team, and</li> <li>the conclusions reached in formulating the auditor's report?</li> </ul>	220.38				
9.10	For audits of financial statements of listed entities is there evidence that the engagement partner discussed significant matters arising during the audit engagement with the engagement quality control reviewer?	220.36 (b)				
9.11	Where differences of opinion arose within the engagement team, did the engagement team follow the firm's policies and procedures for resolving such differences?	220.34				
9.12	Did the auditor perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with IFRS?	330.65				

		ISA Ref	Ye s	No	N/A	COMMENTS
10	<b>REPORTING</b>					
10.1	<b>Does the auditor's report contain the following basic elements:</b> <ul style="list-style-type: none"> <li>▪ title</li> <li>▪ addressee</li> <li>▪ opening paragraph identifying the financial statements audited</li> <li>▪ a statement of the respective responsibilities of the directors and the auditor</li> <li>▪ a scope paragraph including reference to ISAs and a description of the work the auditor performed</li> <li>▪ an opinion paragraph containing reference to the financial framework used to prepare the financial statements (IFRS and the Kenyan Companies Act)</li> <li>▪ an expression of opinion on the financial statements</li> <li>▪ date of the report</li> <li>▪ auditor's address (town or city)</li> <li>▪ auditor's signature?</li> </ul>	700.5				
10.2	<b>Were all audit matters of governance interest, including:</b> <ul style="list-style-type: none"> <li>• material weaknesses in internal control</li> <li>• fraud</li> <li>• indications that a fraud may exist</li> <li>• uncorrected misstatements</li> <li>• communicated on a timely basis?</li> </ul>	260.11 240.99 240.95 240.93 260.11 260.13				

### Overall assessment

Based on your review of the documentation on the audit engagement file and through discussion with the engagement team, are you able to conclude that:

		Yes	No	Comment
1	Sufficient appropriate audit evidence had been obtained and the auditor had a reasonable basis under International Standards on Auditing to support the opinion given?			
2	The financial statements were presented in all material respects in accordance with IFRS?			
3	The engagement team complied with their firm's quality control procedures in all material respects?			

Completed by .....

Date .....

Reviewed by .....

Date .....



## Appendix 10

**Private & Confidential**

### ICPAR AUDIT QUALITY REVIEW

#### INTERNAL QUALITY CONTROL QUESTIONNAIRE – REVIEW (for Reviewer's use only)

PRACTICE NO.

REVIEW CODE

#### NOTES FOR THE REVIEWER

Use the three right hand columns to record:

- The evidence you have obtained to confirm the design of the Quality Control System. This may include evidence obtained from reviewing the reviewee's policy and procedures manuals, inspecting relevant documents, etc
- any deficiencies you have identified in the design of the Quality Control System
- The evidence you have obtained to satisfy yourself that the firm and its staff are complying with its system of Quality Control, as designed. This may include evidence obtained from completing an Engagement Review Checklist, and inspecting relevant documents, confirmations, etc
- Any instances of non-compliance with the firm's Quality Control system, as defined.

Remember, this is not a review of the firm's policies and procedures generally, but specifically of those policies and procedures designed to provide reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements.

Record your findings on additional working papers, appropriately cross-referenced, if necessary.

The references given in the column headed ISQC are to the relevant paragraphs of ISQC 1.

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
1	<b>LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM</b>							
1.1	To promote an internal culture based on the recognition that quality is essential in performing engagements.	9			Are messages incorporated in the firm's training, mission statement, etc? Is quality recognized in performance evaluation? Does the firm devote sufficient resources to the development and support of its QR policies and procedures?			
2	<b>ETHICAL REQUIREMENTS</b>							
2.1	to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements	14			Do these include: <ul style="list-style-type: none"> <li>• integrity</li> <li>• objectivity</li> <li>• professional competence</li> <li>• confidentiality</li> <li>• professional behaviour?</li> </ul>			
3	<b>INDEPENDENCE</b>							

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
3.1	To provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by the IFAC code.	18			Do these cover:: <ul style="list-style-type: none"> <li>▪ Investment in clients</li> <li>▪ Over-reliance on income from individual clients</li> <li>▪ Contingent fees and commission arrangements</li> <li>▪ Prohibition of certain professional services (e.g. acting as management, internal audit, etc)</li> <li>▪ Acceptance of gifts, etc</li> <li>▪ Personal relationships with key client personnel</li> </ul>			
3.2	to communicate its independence requirements to its personnel and others subject to independence requirements	18(a)				Review such communications		

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
3.3	for identifying and evaluating circumstances that create threats to independence, and for demonstrating that it has taken appropriate action to eliminate those threats or reduce them to an acceptable level	18(b)			<p>These should require:</p> <ul style="list-style-type: none"> <li>▪ Engagement partners to provide the firm with relevant information about client engagements, including scope of services</li> <li>▪ Staff to promptly notify the firm of circumstances and relationships that create a threat to independence</li> <li>▪ Accumulation and communication of relevant information to appropriate personnel</li> </ul>			

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
3.4	to provide it with reasonable assurance that it is notified of breaches of independence requirements, and that it has taken appropriate action to resolve such situations	20			These should include: <ul style="list-style-type: none"> <li>Prompt notification by staff of any breaches</li> <li>Prompt communication of action taken to resolve the matter</li> </ul>	Enquire whether there have been any breaches and review documentation		
3.5	for obtaining, at least annually, written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the IFAC Code	23				See question 3 below		
3.6	regarding the rotation of senior personnel, including the engagement leader, on an audit engagement over a long period of time	25			Ensure compliance with IFAC Code	For selected engagements confirm that rotation policy has been complied with		
4	<b>ACCEPTANCE AND CONTINUANCE OF AUDIT ENGAGEMENTS</b>							

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
4.1	for recording its decisions to accept or continue an audit engagement	28			<p>Does such record demonstrate that the firm:</p> <ul style="list-style-type: none"> <li>▪ Has considered the integrity of the client</li> <li>▪ Has carried out an initial risk assessment of the audit</li> <li>▪ Is competent to perform the engagement and has the capabilities, time and resources to do so</li> <li>▪ Can comply with ethical requirements, and</li> <li>▪ For initial engagements, include communication with the previous auditor?</li> </ul>	Review documentation for a sample of acceptances and continuances.		
5	<b>HUMAN RESOURCES</b>							

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
5.1	<p>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 requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. Please identify these under the following headings:</p> <ul style="list-style-type: none"> <li>▪ Recruitment</li> <li>▪ Performance evaluation</li> <li>▪ Professional education</li> <li>▪ Continuing professional development</li> <li>▪ Work experience</li> <li>▪ Coaching</li> <li>▪ Career development</li> <li>▪ Promotion</li> <li>▪ Compensation</li> <li>▪ The estimation of personnel needs (capacity)</li> </ul>	36 37 38			Is due recognition and reward given to the development and maintenance of competence and commitment to ethical principles?	Hold meeting with staff and establish whether policies are being applied in practice		

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
6	<b>ASSIGNMENT OF ENGAGEMENT TEAMS</b>							
6.1	<p>to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> <li>▪ The identity and role of the engagement partner are communicated to key members of client management and those charged with governance</li> <li>▪ The engagement partner has the appropriate capabilities, competence, authority and time to perform the role</li> <li>▪ The responsibilities of the engagement partner are clearly defined and communicated to that partner</li> <li>▪ Appropriate staff are assigned with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory requirements, and to enable the firm or engagement partners to issue reports that are appropriate</li> </ul>	<p>42</p> <p>44</p>				Review the assignment of staff to a sample of higher risk engagements, and consider the appropriateness.		



	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
7	<b>ENGAGEMENT PERFORMANCE</b>							
7.1	<p>To provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances.</p> <p>Specifically, identify the policies and procedures relating to:</p> <ul style="list-style-type: none"> <li>▪ Briefing</li> <li>▪ Staff training</li> <li>▪ Coaching</li> <li>▪ Review and supervision</li> <li>▪ Documentation standards</li> <li>▪ Keeping up-to-date</li> </ul>	46			Are copies of all International Standards on Auditing, International Financial Reporting Standards, the Companies Act, and other relevant legislation readily available to staff for reference?	<p>Review available reference material and ensure it is complete and up to date.</p> <p>Hold meeting with staff and establish whether policies are being applied in practice</p>		
8	<b>CONSULTATION</b>							

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
8.1	to provide it with reasonable assurance that: <ul style="list-style-type: none"> <li>▪ Appropriate consultation takes place on difficult or contentious matters</li> <li>▪ Sufficient resources are available to enable appropriate consultation to take place</li> <li>▪ The nature and scope of such consultations are documented</li> <li>▪ Conclusions resulting from consultations are documented and implemented</li> </ul>	51			Consultation should take place on difficult or contentious matters.	Through engagement reviews.		
9	<b>DIFFERENCES OF OPINION</b>							
9.1	for dealing with differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer	57						
10	<b>ENGAGEMENT QUALITY CONTROL REVIEW</b>							

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
10.1	Requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report.	60			Do they: <ul style="list-style-type: none"> <li>▪ Require an engagement quality review for all audits of financial statements of listed entities</li> <li>▪ Set out criteria against which all other audits should be evaluated to determine whether an engagement quality review should be performed</li> <li>▪ Require an engagement quality control review for all engagements meeting the criteria established above</li> <li>▪ Require the completion of the engagement quality control review before the report is issued?</li> </ul>	Through engagement reviews		

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
10.2	setting out: <ul style="list-style-type: none"> <li>▪ The nature, timing, and extent of an engagement quality control review</li> <li>▪ Criteria for the eligibility of engagement quality control reviewers, and</li> <li>▪ Documentation requirements for an engagement quality control review</li> </ul>	63				Through engagement reviews		
10.3	addressing the appointment of engagement quality control reviewers and establishing their eligibility	68			Technical qualifications required. Objectivity.			
10.4	on documentation of the engagement quality control review	73			These should include documentation that confirms: <ul style="list-style-type: none"> <li>• The quality control procedures have been performed</li> <li>• They were completed before the report was issued</li> <li>• There were no unresolved issues</li> </ul>			
11	<b>MONITORING</b>							

	Identify, in columns 4 and 5, the policies and procedures the firm has established:	ISQC	Manual/ document	Relevant sections or paragraphs	Consider	Evidence tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
11.1	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?	74			Do such policies and procedures include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements? Are such inspections done at least once every three years?	See question 5 below.		
12	<b>COMPLAINTS AND ALLEGATIONS</b>							
12.1	to provide it with reasonable assurance that it deals appropriately with: <ul style="list-style-type: none"> <li>Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory requirements</li> <li>Allegations of non-compliance with the firm's system of quality control</li> </ul>	89						

Additional questions:

	Question	ISQC	Response	Consider	Evidence to be tested	Is the design of the system adequate? (Y/N)	Is the system operating effectively? (Y/N)
1	Identify the person assigned operational responsibility for the firm's quality control system.	9		Do they require the firm's chief executive to assume ultimate responsibility? Does the person assigned operational responsibility for system have sufficient and appropriate experience and ability to assume that responsibility?			
2	Please provide a CV of that person.	12			Review CV		
3	Does your firm obtain, at least annually, written confirmation of compliance with its policies and procedures on independence from all personnel required to be independent by the IFAC Code (ISQC 1, paragraph 23)?	23			Review a sample of confirmations		
4	Has a periodic inspection of a selection of completed engagements by partners or staff independent of the engagement teams been carried out within the last three years?	78					
5	If the answer to the above question is yes, please state: The date of the inspection			Were the reviewers sufficiently experienced and independent? Did the review cover:	Review the report and establish corrective action		

	<p>Was a report on the inspection produced?</p> <p>Will that report be available for inspection by the Quality Reviewers?</p>			<ul style="list-style-type: none"> <li>• Adherence to professional and regulatory requirements</li> <li>• The design and effectiveness of the quality control system</li> <li>• HR policies and practices, including training</li> <li>• Acceptance and continuance decisions</li> <li>• Identification of weaknesses and corrective action needed</li> <li>• Appropriate selection of engagements for inspection?</li> </ul> <p>Was appropriate corrective action taken?</p>	was taken		
--	---	--	--	---	-----------	--	--

#### ASSESSMENT OF THE SYSTEM OF INTERNAL QUALITY CONTROL

1. Non-existent or poor
2. System only partially documented and complied with
3. Design of system as documented is adequate, but is not adequately complied with
4. Design of the system is adequate and it is operating effectively

Completed by:

Name ..... Signature ..... Date .....

Reviewed by:

Name ..... Signature ..... Designation ..... Date .....

## **Appendix 11-RISK ASSESSMENT CRITERIA**

AQA reviews seek to establish whether or not an audit firm is complying with professional standards and whether or not its quality control system is operational.

The Statement of Membership obligation 1 (SMO1) requires Institutes affiliated to IFAC to adopt reviews which are either cyclical or risk based approach.

In the field, reviews are conducted in two phases; an engagement review and a firm review. An engagement review entails conducting a review of sample client files to check compliance with professional standards. A firm review on the other hand entails conducting a review of the firms' overall policies and procedures which ensure quality in the services it provides in accordance with ISQC 1..

The Risk Assessment will be based on the following criteria:-

- All first time reviews be conducted by applying a combination of both an engagement and firm review.
- During this review, an assessment will be made to determine the firms' level of risk in addition to getting to assess the level of overall weaknesses prevalent in the firm's quality control system.
- If during the first review a firm is assessed to be of low risk/and or the level of weaknesses is found to be low, the 2<sup>nd</sup> review should be conducted during the next cycle. (After a three year period). During the second review, the firm will be subjected to an engagement review only.
- If on the other hand, a firm is assessed to be of high risk and / or the level of weaknesses is assessed to be high, an overview of the firm will be done after 6 months followed by a full time review after a period of 12 months. If there is no change in the results of this review, then such a firm needs to be investigated by the AQA Committee which retains the right to recommend the matter to the Disciplinary Committee.
- If during the first review a firm is found to be of medium risk/and or, medium levels of weaknesses, it then needs to be reviewed within a period of one year. If during the second review substantial progress will have been made by such a firm, close monitoring will be done on such a firm over a period of time (6 months) so as to determine the applicability of the option of reviewing it during the next cycle. Otherwise, the firm needs to be investigated by the AQA Committee which retains the right to refer the matter to the Disciplinary Committee.
- This is summarized in the form of a table shown below:



<b>FIRST REVIEW ASSESSMENT OF THE AUDIT FIRM-LEVEL OF WEAKNESSES/RISK</b>	<b>RECOMMENDED COURSE OF ACTION</b>
Low level of weaknesses and/or Low risk	Review in next cycle ( After 3 years)
Medium level weaknesses and/ or medium risk	An overview of the firm within a period of one year.
High levels of weaknesses and/or High risk	An overview of the firm after 6 months to be followed by an in-depth review after one year.
<b>SECOND REVIEW ASSESSMENT OF THE AUDIT FIRM</b>	
Low levels of weaknesses and/or risk	Review in next cycle/ Subject the firm to an engagement review.
Medium risk/levels of weaknesses	Review in one year if substantial improvement is evident. Otherwise, investigation by the AQA Committee with the option of referring matter to the Disciplinary Committee being kept open.
High levels of weaknesses and/or risk	Further investigations by the AQA Committee with the option of referring matter to the Disciplinary Committee for investigation being kept open.

## **Risk-Based Approach to Selecting Offices and Engagements on an Engagement Review**

Any AQR review has two distinct parts; these are the firm review and the engagement review. The firm review looks at how well a member firm has complied with requirements of the International Standard on Quality Control {ISQC1}. That is; has a member firm documented policies and procedures to give it assurance that quality control measures it has documented will in turn lead to high standards of excellence in the performance of audit engagements.

The engagement reviews main focus is the working paper files. Here, the working paper files are reviewed to establish how well the member firm has documented the entire audit process. The engagement review checks compliance with the requirements of the International Standards on Auditing {ISAs} and any other subsidiary legislation that may apply.

### **Risk assessment procedures**

The carrying out of AQR review assignment just like any other audit assignment requires that the reviewers assess the risks involved in any assignment. In external audit, the performance of risk assessment procedures enables the auditor to determine the areas where he should concentrate his effort. Likewise, in the review of practice units,{audit firms} the reviewers are required to come up with risk assessments methodologies that will ensure that the reviewers minimize the inherent and controls risk that may be present in any review assignment.

In assessing risks associated with any review, the review team should evaluate the reviewee firm's quality control policies and procedures over its auditing practice in relation to the requirements set out by International Standard on Quality Control 1 {ISQC 1}. This evaluation serves as a basis of determining whether the reviewed firm has adopted appropriate comprehensive and suitably designed policies and procedures that are relevant to it's the size and the nature of the practice.

In planning the review, the review team should use the understanding it has obtained of the reviewee firm's auditing practice and of its system of quality control to assess practice review risk.

This therefore implies that the higher the assessed levels of review risk, the greater the number of branches and engagements that need to be reviewed. It should be noted that the practice review risk can be influenced by factors within the firm {for example, the firm has engagements concentrated in specialized industries or the firm has a few engagements constituting a significant portion of the firm's auditing practice} or outside the firm {for example new professional standards being applied for first time or adverse economic developments in an industry}

The practice review risk here would include the risk that the review team will:

- Fail to identify significant weaknesses in the reviewed firm's quality control system or compliance with it;
- Issue an inappropriate opinion.

The practice review risk would consist of two parts:

The risk {consisting of both inherent and control risk} that an engagement will fail to comply with professional standards and/or the reviewed firm's quality control system will not prevent such failure.

Inherent risk on the other hand is the likelihood that an accounting or audit engagement will fail to comply with professional standards assuming that the firm does not have a quality control system.

Control risk is the risk that a firm's quality control system will not prevent the performance of an engagement that does not comply with professional standards. Control risk includes the quality control system as well as factors that establish, enhance or mitigate the effectiveness of the systems including the management's attitude towards quality work and the firm's emphasis on the same.

The risk {detection risk} that the review team will fail to detect the design or compliance deficiencies in the reviewed firms' quality control system that either result in the firm having less than reasonable assurance of conforming with professional standards or constitute conditions whereby there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements.

To properly assess the risk, a reviewer must

- Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the practice review.
- Obtain a sufficient understanding of the design of the firm's quality control system including an understanding of the monitoring procedures performed for engagements

After assessing the above, the reviewer should use the information obtained in selecting the engagements to be reviewed.

For example, special emphasis will be placed on audit practices that carry out engagements with large public interest. These engagements include:-

1. Retirement benefit schemes
2. Deposit taking institutions like banks, saccos, and micro-finance institutions
3. Insurance companies
4. Listed companies or companies that have financial instruments listed in the capital market like commercial paper and corporate bonds.
5. Audit practices that have received negative publicity in the public domain.

The reviewers must ensure that the engagements selected using the risk based approach must represent a reasonable cross section of the firm's auditing practice and more emphasis being place on the offices and engagements in the practice with higher assessed levels of practice review risk.

Engagements selected for review should be those performed during the year under review and if the current year's engagement has not been completed, the prior year's engagement should be reviewed.

### **Documenting the Risk Assessment**

In the conduct of the practice review it is imperative that the reviewers document the risk assessment that they have assessed for each review. The risk assessment documented should demonstrate that:

- a) The reviewers exercised appropriate judgment when assessing the inherent and control risk associated with the firm's audit practice.
- b) The offices and engagements to be reviewed cover a reasonable cross section of the firm's auditing practice. In addition, the documentation should show that greater emphasis is placed on branches and engagements.