

STATEMENT OF MEMBERSHIP OBLIGATIONS 1

QUALITY ASSURANCE

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This Statement of Membership Obligations (SMO) is issued by the IFAC Board. It is to be applied by member bodies of IFAC to quality assurance review programs for their members performing certain audit engagements of financial statements. It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies, or whether the programs are carried out by another body.

Where government, regulators or other appointed authorities perform any of the functions covered by of this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.

This SMO sets out the obligations of member bodies in relation to quality assurance review programs. To understand and apply the obligations (identified in bold type), it is necessary to consider the whole text of the SMO, including the explanatory and other material contained in the SMO.

Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.

This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of this SMO.

Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact that some member bodies and associates and their members operate in different sectors of the profession and an SMO may not apply to them in its entirety.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO, or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

A member body is responsible for quality assurance review programs in respect of their members only to the extent that they are performing engagements in the country or countries of the member body's domicile (as recorded in its application for admission to membership in IFAC).

Introduction

1. Quality control is addressed at three levels: the engagement level, the firm level and the member body level.
2. The International Auditing and Assurance Standards Board (IAASB) establishes standards and provides guidance on quality control policies and procedures:
 - (a) For specific types of engagements (for example, International Standard on Auditing 220 (ISA 220), “Quality Control For Audits of Historical Financial Information”), and
 - (b) For a firm’s responsibilities for its system of quality control for audits and reviews of historical financial information, and other assurance and related services engagements (International Standard on Quality Control 1 (ISQC 1), “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”).
3. This SMO establishes the obligations of IFAC member bodies that relate to quality assurance review programs for their members performing certain audit engagements of financial statements.

Definitions

4. In this SMO, the following terms have the meanings attributed below:
 - (a) Best endeavors – A member body has used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation;
 - (b) Firm – a sole practitioner, partnership, corporation or other entity of professional accountants;
 - (c) Listed entity* – an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body;
 - (d) Member – a member of an IFAC member body, limited to either individuals who are partners in firms, or firms;
 - (e) Partner* – any individual with authority to bind the firm with respect to the performance of a professional services engagement;
 - (f) Professional standards* – IAASB engagement standards, as defined in the IAASB’s “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code) and relevant national ethical requirements;

* As defined in ISQC 1 published in February 2004.

- (g) Quality assurance review – a review to determine whether the member (i) is subject to (partner) or has (firm) an adequate system of quality control, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements;
- (h) Quality assurance review team – individuals (including the quality assurance review team leader) who a member body or member employs or engages to perform a quality assurance review;
- (i) Quality assurance review team leader – an experienced professional accountant who a member body or member employs or engages to lead a quality assurance review;
- (j) System of quality control* – policies designed to provide a firm with reasonable assurance that (i) the firm and its personnel comply with professional standards and regulatory and legal requirements, and (ii) reports issued by the firm or partners are appropriate in the circumstances, and the procedures necessary to implement and monitor compliance with those policies.

Scope of Quality Assurance Review Program

- 5. The member body should ensure a mandatory quality assurance review program is in place for those of its members performing audits of financial statements of, as a minimum, listed entities. The member body should establish and publish criteria for evaluating all other audits of financial statements to determine whether they should be included in the scope of the program; any engagements meeting these criteria should be included in the scope of the quality assurance review.**
- 6. Where government, regulators or other appointed authorities perform any of the functions covered in this Statement, member bodies should:**
 - (a) Use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them; and**
 - (b) Assist them in that implementation where appropriate.**
- 7. Also, the member body should obtain an understanding of the scope of such quality assurance review programs. If this scope is materially narrower than the scope of the requirements of this SMO, the member body should establish a program to deal with those aspects of the scope of this SMO which are not within the scope of the program established by the government, regulatory or other appointed authority.**
8. IFAC believes that it is desirable for a wide range of professional services performed by professional accountants to be subject to quality assurance review programs that are commensurate with the nature of the services. It therefore encourages member bodies to extend the scope of quality assurance review programs to cover as many professional services as possible. The public interest, however, requires that certain types of engagements be subject to mandatory quality assurance reviews. It is the responsibility of member bodies to identify criteria, or risk factors, for selecting engagements to be subject to mandatory quality assurance review. Because the public places greater reliance on audits of financial statements of listed entities, it is appropriate that mandatory quality assurance review programs apply at least to those engagements.

* As defined in ISQC 1 published in February 2004.

9. Criteria for extending the scope of engagements that will be subject to a quality assurance review include:
 - The number and range of stakeholders who may make decisions based on the auditor's report.
 - The extent to which the subject matter and the auditor's report are of public interest, or may affect the public's confidence in public institutions or public administration.
10. The implementation of an appropriate system of quality control is the responsibility of individual firms. The member body requires its members (a) to adhere to a code of ethics (such as the IFAC Code), and (b) to implement a system of quality control for the performance of audit engagements in accordance with ISQC 1 and ISA 220.

Quality Control Standards

11. **The member body should establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with ISQC 1.**
12. Individual firms are responsible for implementing policies and procedures that comply with ISQC 1. The member body establishes a quality assurance review program that monitors compliance with those policies and procedures.

Other Quality Control Guidance

13. **The member body should assist its members to:**
 - (a) **Understand the objectives of quality control; and**
 - (b) **Implement and maintain appropriate systems of quality control.**
14. Assistance may take various forms, depending upon the needs within a country, including:
 - Developing guidelines for comprehensive Continuing Professional Development (CPD) programs. These could include (a) guidance on planning or evaluating the adequacy of in-house training, or (b) CPD programs mandated by the member body or local licensing authority.
 - Providing CPD programs to firms without their own programs, including those that are specifically directed to implementing quality control policies and procedures.
 - Providing guidelines for conducting effective internal inspection programs.
 - Implementing voluntary programs that enable firms to obtain an independent, confidential assessment of their quality control policies and procedures, apart from any formal quality assurance review program. Potential sources to perform the assessment include a firm, member body employees or individuals recommended by the member body.

The Design of the Quality Assurance Review Program

15. **The subject of the quality assurance review program may be either a firm or a partner as determined by the member body.**
 - (a) **Where the firm is the subject, the program should be designed to obtain reasonable**

assurance that:

- (i) The firm has an adequate system of quality control for its practice relating to audits of financial statements of listed entities (and of other entities or engagements the member body includes);**
 - (ii) The firm complies with that system; and**
 - (iii) The firm and engagement teams have adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.**
 - (b) Where a partner is the subject, the program should be designed to obtain reasonable assurance that:**
 - (i) The partner is subject to an adequate system of quality control for the practice of the partner's firm relating to audits of financial statements of listed entities (and of other entities or engagements the member body includes);**
 - (ii) The partner complies with that system; and**
 - (iii) The partner has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.**
16. Where the firm is the subject of the quality assurance review, the review will need to take into account the work of individual partners to conclude whether the firm has adhered to professional standards and applicable regulatory and legal requirements in respect of audit engagements. Where a partner is the subject of the quality assurance review, the review will also need to take into account the system of quality control of the partner's firm to conclude whether the system is adequate, and whether the firm has complied with such system.
17. When evaluating the adequacy of a firm's system of quality control, the member body considers that the elements of the system of quality control are firm-wide and are not necessarily engagement-specific. However, the firm may establish additional policies and require additional procedures for audits of financial statements of listed entities.
- 18. The member body should publish a description of the scope and design of its quality assurance review program and related procedures to be followed by quality assurance review teams.**
19. The member body includes the following procedures in its quality assurance review program guidelines:
 - Requiring and determining whether quality assurance review teams receive training in the conduct of quality assurance reviews.
 - Evaluating the independence of the members of the quality assurance review teams.
 - Evaluating whether quality assurance review teams have the technical skill and knowledge, the specialized experience, and the authority, to perform quality assurance reviews with professional competence.
 - Assessing compliance with international accounting standards (either International Financial Reporting Standards or International Public Sector Accounting Standards) and International Standards on Auditing to the extent such standards are used in the engagements included in the scope of the review.
 - Evaluating corrective actions taken by the member with regards to the results of previous quality assurance reviews.

- Documenting the performance of quality assurance review procedures in a manner that permits the member body or an oversight body to objectively determine whether quality assurance reviews were performed with due care and in compliance with the relevant standards.
- Reporting the conclusions of quality assurance reviews to appropriate individuals in a manner that assists the subjects of reviews to (a) identify and implement any necessary corrective actions, and (b) make other desirable improvements in quality control policies and procedures.
- Imposing, where applicable, added corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each member.
- Imposing disciplinary measures on those who refuse to cooperate in the conduct of the review, fail to take necessary corrective action, or are found to have serious deficiencies in performance that cannot be dealt with by meaningful remedial or educational measures.
- Maintaining the confidentiality of client information.

Review Cycle

20. **A member body should choose either a cycle or a risk-based approach for selecting members for review. The member body should provide that all firms or partners performing audits of financial statements to be reviewed are considered in the selection process.**

Cycle Approach

21. **Member bodies that select a cycle approach should:**

- (a) **Adopt a maximum cycle of three years when a firm is the subject of the review; and**
- (b) **Take into consideration the quality and effectiveness of the internal inspection program of a partner's firm when a partner is the subject of the quality assurance review.**

22. The review cycle for partners is determined by the member body. The length of the review cycle takes into consideration the frequency the partner is reviewed under the firm's internal monitoring program, as well as the procedures performed.

23. It may be appropriate to review some members more frequently. For example, the review cycle may be shortened if the results of the previous review were less than satisfactory. The member body may identify additional appropriate reasons for conducting reviews more frequently.

Risk-Based Approach

24. **Member bodies that select a risk-based approach should consider various risk factors when determining the firms or partners to be reviewed. Member bodies should ensure that firms or partners are reviewed with reasonable frequency even if not selected for review based on risk factors.**

25. Examples of risk factors include:

- (a) Number of listed entity clients.
- (b) Number of entities considered to be of public interest.
- (c) Past results of quality assurance reviews, including:
 - (i) Failure to meet Continuing Professional Development requirements;
 - (ii) Independence violations; or
 - (iii) Deficiencies in the design of, or compliance with the firm's system of quality control.

Other Considerations

26. Audits of financial statements subject to selection for review are ordinarily completed and issued audits of financial statements with fiscal years periods ending during the review period. If a more recent auditor's report has been issued during the review, consideration is given to reviewing that audit.
27. If, during or after a quality assurance review period, a firm under review has (a) made a significant acquisition of all or a portion of another firm's practice, or (b) divested itself of a significant portion of its practice, before commencing the review the quality assurance review team consults with the member body on the scope of the quality assurance review or other actions that may be taken.

Quality Assurance Review Team Procedures

28. **The member body should require quality assurance review teams to follow procedures that are based on published guidelines. These procedures should include reviews of engagement working papers and discussions with appropriate personnel.**
29. **The procedures performed during the quality assurance review should include:**
 - **An assessment of the system of quality control relating to audits of financial statements of listed entities.**
 - **Sufficient review of the quality control policies and procedures and reviews of engagement working papers to evaluate:**
 - o **The functioning of that system of quality control, and compliance with it; and**
 - o **The compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements.**
30. **The review of engagement working papers should include evaluating:**
 - **The existence and effectiveness of the system of quality control implemented by the member, and the performance of the engagement.**
 - **Compliance with professional standards and regulatory and legal requirements related to the engagement.**
 - **The sufficiency and appropriateness of evidence documented in the working papers.**
 - **Based on the above, whether the auditor's reports are appropriate in the circumstances.**
31. Procedures the quality assurance review team may consider when performing the quality assurance review include:
 - Obtaining a sufficient understanding of:
 - o The nature and extent of the member's audit practice and the methodologies used.
 - o The design of the member's system of quality control.
 - o The internal ethical and independence policies and procedures.
 - o The member's training policies and procedures.
 - Testing the effectiveness of the member's monitoring procedures in place for the period under review, and whether the quality assurance reviewer can rely on them by performing tests of the conclusions of the applicable period's monitoring as a source of evidence. It may be useful to plan the quality assurance review concurrent with the member's monitoring procedures.
 - Reviewing compliance with the member's system of quality control relating to audits of

financial statements.

- Reassessing the adequacy of the scope of the quality assurance review by evaluating the results to determine whether additional procedures are necessary to support or reach a conclusion.
- Holding a closing meeting with the member to discuss the quality assurance review team's results, conclusions, recommendations, and the type of report to be issued.
- Providing the member with conclusions and recommendations for corrective actions.

Documentation

32. The quality assurance review team should document matters that:

- (a) Provide evidence supporting the quality assurance review report; and**
- (b) Establish that the quality assurance review was carried out in accordance with the guidelines the member body established.**

33. The quality assurance review team maintains documentation that supports the work performed, findings, recommendations, and conclusions. The quality assurance review team leader instructs the quality assurance review team on how to prepare, store, and retain documentation (programs, checklists, etc.).

34. During the quality assurance review, the quality assurance review team:

- (a) Documents the planning of the review, the scope of work performed, the conclusions reached, and comments made to the firm or partner that were not deemed sufficiently significant to be included as a finding;
- (b) Evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the design of the firm's system of quality control and in the firm's compliance with its system;
- (c) Evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the performance of an engagement; and
- (d) Summarizes conclusions.

35. **The member body should determine how long to retain documentation after completion of the quality assurance review. The time should be long enough to allow the member body or its oversight body, if any, to maintain appropriate oversight of the quality assurance review process.**

The Quality Assurance Review Team

Skills and Competence

36. **Members of the quality assurance review team should have the necessary competencies to perform the work expected of them. These competencies include:**

- (a) Appropriate professional education;**
- (b) Relevant professional experience; and**
- (c) Specific training on performing quality assurance reviews.**

37. **Members of the quality assurance review team should possess certification or credentials the member body requires.**
38. Those who select and approve the quality assurance review team consider which of the following competencies and areas of expertise are required in the quality assurance review:
- Understanding of professional standards and regulatory and legal requirements.
 - Understanding the guidelines the member body sets for performing quality assurance reviews.
 - Understanding and practical experience of audit engagements and quality assurance reviews through appropriate training and participation.
 - Appropriate technical knowledge, including knowledge of relevant information technology.
 - Knowledge of specific industries.
 - Ability to apply professional judgment.
39. Individuals selected as quality assurance review team leaders and members of quality assurance review teams are members in good standing in the profession. An individual may not serve as a quality assurance reviewer if his or her ability to practice public accountancy has been limited in any way by a regulatory, profession-wide monitoring organization, or enforcement body until the limitation or restriction has been removed.
40. **The quality assurance review team should consist of an appropriate number of reviewers to accomplish the review within a reasonable time period.**

The Quality Assurance Review Team Leader

41. **A quality assurance review team leader should be assigned for each quality assurance review assignment. The quality assurance review team leader should:**
- (a) **Supervise the conduct of the quality assurance review;**
 - (b) **Communicate the quality assurance review team's conclusions to the member; and**
 - (c) **Prepare the quality assurance review report.**
42. The quality assurance review team leader has significant involvement in the planning of the quality assurance review, and at the member's closing meeting. The quality assurance review team leader is involved in discussing significant conclusions with the member and the quality assurance review team, and interacts with the member and the quality assurance review team during the quality assurance review.
43. The quality assurance review team leader attends review training courses approved by the member body to obtain current knowledge of the quality assurance review process, and otherwise maintains competencies in conducting such reviews.

Ethical Requirements

44. **The member body and quality assurance review team should consider the fundamental principles set out in the IFAC Code (in addition to relevant national codes of ethics) in relation to the quality assurance review team's conduct of a review.**
45. **When selecting a review team for an individual quality assurance review assignment, those responsible for selection and approval should consider whether the independence of the quality**

assurance review team leader and each member of the quality assurance review team has been determined. Quality assurance review team members are expected to be independent of the member and the member's clients selected for review.

46. Independence is addressed by the IFAC Code with respect to assurance engagements. Even though the report issued by the quality assurance review team may not be an assurance report, independence of quality assurance review team members is required by this SMO.
47. **Firms and their peers should not perform reciprocal quality assurance reviews.** Performance of other reciprocal professional services by the quality assurance review team and the member does not, however, impair independence, so long as the fees charged are not material to either party, and the services are not an integral part of the member's system of quality control.
48. If concerns regarding threats to the independence of the quality assurance review team cannot be eliminated or reduced to an acceptable level by appropriate safeguards to the satisfaction of all parties, a different quality assurance review team is appointed.

Confidentiality

49. **As stated in the IFAC Code or relevant national codes of ethics, the member body should exempt members from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.**
50. **The quality assurance review team should follow confidentiality requirements similar to those established for professional accountants performing audits of financial statements.**
51. The obligation of professional confidentiality binds (a) all persons who work or have worked for the member body, regulator or other competent authority responsible for administering and overseeing the quality assurance review program and (b) all persons involved with the applicable oversight system.

Reporting

52. **The quality assurance review team leader should issue a written quality assurance review report to the reviewed firm or partner upon completion of each quality assurance review assignment. The report should include the following elements:**
 - **The guidance (referred to in paragraph 18) utilized by the quality assurance review team.**
 - **Where the subject of the quality assurance review program is a firm, a conclusion on:**
 - **Whether the firm's system of quality control has been designed to meet the requirements of the quality control standards described in paragraph 11; and**
 - **Whether the firm has complied with its system of quality control during the review period.**
 - **Where the subject of the quality assurance review program is a partner, a conclusion on:**
 - **Whether the partner has been subject to a system of quality control designed to meet the requirements of the quality control standards described in paragraph 11; and**
 - **Whether the partner, through the firm, has complied with the firm's system of quality control during the review period.**
 - **Reasons for negative conclusions on the above.**

- **Recommendations for areas of improvement at both firm wide and engagement level.**

53. The member body determines the form of the quality assurance review report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).
54. **The reviewed member should provide a timely written response to the recommendations and conclusions of the quality assurance review report, including planned actions and expected time of completion or implementation. The response should be addressed to the quality assurance review team or the member body. The expected time of completion should be reasonable and agreed by the member, quality assurance review team, and member body.**
55. **The member body should prepare and make available to the public an annual report summarizing the results of the quality assurance review program and send copies of the report to regulatory authorities, on request.**
56. The annual report does not have to include detail regarding specific members (partners or firms), or clients.

Corrective and Disciplinary Actions

57. **The member body should require each member to make appropriate corrections to its system of quality control, or in its compliance with policies and procedures. When a member subsequently fails to demonstrate compliance with professional standards and regulatory and legal requirements, the member body should take appropriate disciplinary action.**
58. The member body (or a committee of the member body with appropriate delegated powers) considers the conclusions of each quality assurance review report. When a quality assurance review report includes unsatisfactory conclusions, the member body may require a member to provide representations and explanations, including corrective actions the member plans to take.
59. **The member body should clearly establish a link between less than satisfactory results of quality assurance reviews and the initiation of corrective and disciplinary actions under its disciplinary system.**
60. The member body may consider various forms of corrective actions, including:
 - Requiring the firm to take corrective measures, including appropriate actions with respect to individual personnel, and engagements
 - Requiring additional continuing professional development
 - Accelerated or special quality assurance reviews
61. The member body may consider various forms of disciplinary actions including:
 - Admonishments, censures, or reprimands
 - Fines
 - Suspension from membership
 - Expulsion from membership
62. If a member body licenses its members, it may prohibit firms or individuals from performing audits of financial statements.

Effective Date

- 63. This SMO is effective for reviews commencing on or after December 31, 2005 and was last amended as of November 10, 2006.**