

**STATEMENT OF AUDITING STANDARDS
240
QUALITY CONTROL FOR AUDIT WORK**

*(Effective for audits of financial statements for periods beginning before 15 June 2005)**

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* HKSA 220 "Quality control for audits of historical financial information" is effective for audits of historical financial information for periods beginning on or after 15 June 2005.

STATEMENT OF AUDITING STANDARDS
240
QUALITY CONTROL FOR AUDIT WORK

*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures, (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on the quality control aspect of an audit including:
 - a. policies and procedures of an audit firm regarding audit work generally; and
 - b. procedures regarding the work delegated to assistants on an individual audit.
2. ***Quality control policies and procedures should be implemented at both the level of the audit firm and on individual audits. (SAS 240.1)***
3. In this SAS the following terms have the meaning attributed below:
 - a. "Assistants" means professional staff employed or engaged by an audit firm, who take a direct part in an individual audit.
 - b. "Audit firm" is the partners of a firm of Certified Public Accountants (Practising) or the directors of a corporate practice providing audit services. For the purpose of this SAS, the term "audit firm" is also used when describing a sole practitioner providing audit services on his or her own account, either under the practitioner's own name or under the name of a firm or a corporate practice.
 - c. "Auditors" refers to the audit firm(s) with final responsibility for the audit where appropriate, the term "auditors" includes assistants acting within delegated authority.
 - d. "Personnel" means all partners or directors and professional staff employed or engaged in the audit firm's audit practice.

Audit firm

4. ***The audit firm should implement quality control policies and procedures designed to ensure that audits are conducted in accordance with SASs, where applicable. (SAS 240.2)***
5. The nature, timing and extent of an audit firm's quality control policies and procedures depend on a number of factors such as the size and nature of its practice, its geographic dispersion, its organisation and appropriate cost or benefit considerations. Accordingly, the policies and procedures adopted by individual audit firms vary, as does the extent of their documentation. Illustrative examples of quality control policies and procedures for an audit firm are presented in the Appendix to this SAS.
6. The objectives of the quality control policies to be adopted by an audit firm ordinarily incorporate matters set out below.

- a. Requirements of professional ethics statements

Personnel in the firm are to adhere to the Statements of Professional Ethics issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) especially relating to the principles of independence, integrity, objectivity, confidentiality and professional behaviour.

- b. Skills and competence

The firm is to be staffed by personnel who have attained and maintain the technical standards and professional competence required to enable them to fulfil their responsibilities with due care.

- c. Acceptance and retention of clients

Prospective and existing clients are evaluated and reviewed on an ongoing basis. In making a decision to accept or retain a client, the firm's independence and ability to serve the client properly, and the integrity of the client's management are considered.

- d. Assignment

Audit work is assigned to personnel who have the degree of technical training and proficiency required in the circumstances.

- e. Delegation

Sufficient direction, supervision and review of work at all levels is carried out in order to provide reasonable assurance that the work performed meets appropriate standards of quality.

- f. Consultation

Whenever necessary, consultation within or outside the firm is to occur with those who have appropriate expertise.

- g. Monitoring

The continued adequacy and operational effectiveness of quality control policies and procedures are monitored.

- 7 *The audit firm's general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (SAS 240.3)*

Individual audits

- 8 *Auditors should implement those quality control procedures which are, in the context of the policies and procedures of the audit firm, appropriate to the individual audit. (SAS 240.4)*

9. Auditors, and assistants with supervisory responsibilities, consider the professional competence of assistants to whom work is delegated when deciding the appropriate extent of direction, supervision and review.

10. Any work delegated to assistants is directed, supervised and reviewed in a manner which provides reasonable assurance that such work is performed competently and with due care.

Direction

11. Assistants to whom work is delegated need appropriate direction. Direction involves informing assistants of their responsibilities and the objectives of the procedures they are to perform. It also involves informing them of matters, such as the nature of the entity's business and possible accounting or auditing problems that may affect the nature, timing and extent of audit procedures with which they are involved.
12. There are various means of directing assistants. For example, an audit programme and oral briefings during the course of the audit are important tools for the communication of audit directions. Time budgets and the overall audit plan are also helpful in communicating audit directions.

Supervision

13. Supervision is closely related to both direction and review and may involve elements of both.
14. Personnel carrying out supervisory responsibilities perform the following functions during the audit:
 - a. monitor the progress of the audit to consider whether:
 - i. assistants have the necessary skills and competence to carry out their assigned tasks;
 - ii. assistants understand the audit directions; and
 - iii. the work is being carried out in accordance with the overall audit plan and the audit programme;
 - b. become informed of and address significant accounting and auditing questions raised during the audit, by assessing their significance and modifying the overall audit plan and the audit programme as appropriate; and
 - c. resolve any differences of professional judgement between personnel and consider the level of consultation that is appropriate.

Review

15. The work performed by each assistant is reviewed by personnel with greater competence and experience to ensure that:
 - a. the work has been performed in accordance with the audit programme;
 - b. the work performed and the results obtained have been adequately documented;
 - c. all significant audit matters have been resolved or are reflected in audit conclusions;
 - d. the objectives of the audit procedures have been achieved; and
 - e. the conclusions expressed are consistent with the results of the work performed and support the audit opinion.
16. The following are reviewed on a timely basis:
 - a. the overall audit plan and the audit programme;
 - b. assessments of inherent and control risks, including the results of tests of control and the modifications, if any, made to the overall audit plan and the audit programme as a result thereof;

- c. documentation of the audit evidence obtained from substantive procedures and the conclusions drawn therefrom, including the results of consultations; and
 - d. financial statements, proposed audit adjustments and the proposed auditors' report.
17. The process of reviewing an audit may include, particularly in the case of large complex audits, requesting personnel not otherwise involved in the detailed audit to perform certain review procedures before the issue of the auditors' report, eg. to consider specific areas of audit judgement and to review the draft annual report prior to its publication and distribution.

Compliance with International Standards on Auditing

18. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 220 "Quality Control for Audit Work".

Effective date

19. This SAS is effective for audits of financial statements for periods beginning before 15 June 2005. |

Appendix

Illustrative examples of quality control policies and procedures for an audit firm

A. REQUIREMENTS OF PROFESSIONAL ETHICS STATEMENTS

Policy

Personnel in the firm are to adhere to the Statements of the Professional Ethics issued by the HKICPA especially relating to the principles of independence, integrity, objectivity, confidentiality and professional behaviour.

Procedures

1. Assign an individual or group to provide guidance and to resolve questions on matters of integrity, objectivity, independence and confidentiality.
 - a. Identify circumstances where documentation as to the resolution of questions would be appropriate.
 - b. Require consultation with authoritative sources when considered necessary.
2. Communicate policies and procedures regarding independence, integrity, objectivity, confidentiality and professional behaviour to personnel at all levels within the firm.
 - a. Inform personnel of the firm's policies and procedures and advise them that they are expected to be familiar with them.
 - b. Emphasise independence of mental attitude in training programmes and in supervision and review of audits.
 - c. Inform personnel on a timely basis of those entities to which independence policies apply.
 - i. Prepare and maintain for independence verification purposes a list of the firm's clients and of other entities (client's affiliates, parents, associates, and so forth) to which independence policies apply.
 - ii. Make the list available to personnel (including personnel new to the firm or to an office) who need it to determine their independence.
 - iii. Establish procedures to notify personnel of changes in the list.
3. Monitor compliance with policies and procedures relating to independence, integrity, objectivity, confidentiality and professional behaviour.
 - a. Obtain from personnel periodic written representations, ordinarily on an annual basis, stating that:
 - i. they are familiar with the firm's policies and procedures;
 - ii. prohibited investments are not held and were not held during the period; and
 - iii. prohibited relationships do not exist, and transactions prohibited by firm policy have not occurred.

- b. Assign responsibility for resolving exceptions to a person or group with appropriate authority.
- c. Assign responsibility for obtaining representations and reviewing independence compliance files for completeness to a person or group with appropriate authority.
- d. Review periodically the firm's association with clients to ascertain whether any areas of involvement may or may be seen to impair the firm's independence.

B. SKILLS AND COMPETENCE

Policy

The firm is to be staffed by personnel who have attained and maintain the technical standards and professional competence required to enable them to fulfil their responsibilities with due care.

Procedures

Hiring

1. Maintain a programme designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.
 - a. Plan for the firm's personnel needs at all levels and establish quantified hiring objectives based on current clientele, anticipated growth, and retirement.
 - b. Design a programme to achieve hiring objectives which provides for:
 - i. identification of sources of potential hires;
 - ii. methods of contact with potential hires;
 - iii. methods of specific identification of potential hires;
 - iv. methods of attracting potential hirees and informing them about the firm; and
 - v. methods of evaluating and selecting potential hirees for extension of employment offers.
 - c. Inform those persons involved in hiring as to the firm's personnel needs and hiring objectives.
 - d. Assign to authorised persons the responsibility for employment decisions.
 - e. Monitor the effectiveness of the recruiting programme.
 - i. Evaluate the recruiting programme periodically to determine whether policies and procedures for obtaining qualified personnel are being observed.
 - ii. Review hiring results periodically to determine whether goals and personnel needs are being achieved.
2. Establish qualifications and guidelines for evaluating potential hirees at each professional level.
 - a. Identify the attributes to be sought in hirees, such as intelligence, integrity, honesty, motivation and aptitude for the profession.
 - b. Identify achievements and experiences desirable for entry level and experienced personnel. For example:

- i. academic background;
 - ii. personal achievements;
 - iii. work experience; and
 - iv. personal interests.
 - c. Set guidelines to be followed when hiring individuals in situations such as:
 - i. hiring relatives of personnel or relatives of clients;
 - ii. rehiring former employees; and
 - iii. hiring client's employees.
 - d. Obtain background information and documentation of qualifications of applicants by appropriate means, such as:
 - i. resumes;
 - ii. application forms;
 - iii. interviews;
 - iv. academic record;
 - v. personal references; and
 - vi. former employment references.
 - e. Evaluate the qualifications of new personnel, including those obtained from other than the usual hiring channels (for example, those joining the firm at supervisory levels or through merger or acquisition), to determine that they meet the firm's requirements and standards.
3. Inform applicants and new personnel of the firm's policies and procedures relevant to them.
- a. Use a brochure or other means to inform applicants and new personnel.
 - b. Prepare and maintain a manual describing policies and procedures for distribution to personnel.
 - c. Conduct an orientation programme for new personnel.

Professional Development

4. Establish guidelines and requirements for continuing professional education and communicate them to personnel.
- a. Assign responsibility for the professional development function to a person or group with appropriate authority.
 - b. Provide that programmes developed by the firm be reviewed by qualified individuals. Programmes would contain statements of objectives and education and/or experience prerequisites.
 - c. Provide an orientation programme relating to the firm and the profession for newly employed personnel.

- i. Prepare publications and programmes designed to inform newly employed personnel of their professional responsibilities and opportunities.
 - ii. Assign responsibility for conducting orientation conferences to explain professional responsibilities and firm policies.
 - d. Establish continuing professional education requirements for personnel at each level within the firm.
 - i. Consider legislative and professional bodies' requirements or voluntary guidelines in establishing firm requirements.
 - ii. Encourage participation in external continuing professional education programme, including self-study courses.
 - iii. Encourage membership in professional organisations. Consider having the firm pay or contribute toward membership dues and expenses.
 - iv. Encourage personnel to serve on professional committees, prepare articles, and participate in other professional activities.
 - e. Monitor continuing professional education programmes and maintain appropriate records, both on a firm and an individual basis.
 - i. Review periodically the records of participation by personnel to determine compliance with firm's requirements.
 - ii. Review periodically evaluation reports and other records prepared for continuing education programmes to evaluate whether the programmes are being presented effectively and are accomplishing firm's objectives. Consider the need for new programmes and for revision or elimination of ineffective programmes.
- 5. Make available to personnel information about current developments in professional technical standards and materials containing the firm's technical policies and procedures and encourage personnel to engage in self-development activities.
 - a. Provide personnel with professional literature relating to current developments in professional technical standards.
 - i. Distribute to personnel material of general interest, such as relevant international and national pronouncements on accounting and auditing matters.
 - ii. Distribute pronouncements on relevant regulations and statutory requirements in areas of specific interest, such as company, securities and taxation law, to persons who have responsibility in such areas.
 - iii. Distribute manuals containing firm's policies and procedures on technical matters to personnel. Manuals need to be updated for new developments and changing conditions.
 - b. For training programmes presented by the firm, develop or obtain course materials and select and train instructors.
 - i. State the programme objectives and education and/or experience prerequisites in the training programmes.
 - ii. Provide that programme instructors be qualified as to both programme content and teaching methods.

- iii. Have participants evaluate programme content and instructors of training sessions.
 - iv. Have instructors evaluate programme content and participants in training sessions.
 - v. Update programmes as needed in light of new developments, changing conditions, and evaluation reports.
 - vi. Maintain a library or other facility containing professional, regulatory and firm literature relating to professional and technical matters.
6. Provide, to the extent necessary, programmes to fill the firm's needs for personnel with expertise in specialised areas and industries.
- a. Conduct programmes to develop and maintain expertise in specialised areas and industries, such as regulated industries, computer auditing, and statistical sampling methods.
 - b. Encourage attendance at external education programmes, meetings, and conferences to acquire technical or industry expertise.
 - c. Encourage membership and participation in organisations concerned with specialised areas and industries.
 - d. Provide technical literature relating to specialised areas and industries.

Advancement

7. Establish qualifications deemed necessary for the various levels of responsibility within the firm.
- a. Prepare guidelines describing responsibilities at each level and expected performance and qualifications necessary for advancement to each level, including:
 - i. titles and related responsibilities; and
 - ii. the amount of experience (which may be expressed as a time period) generally required for advancement to the succeeding level.
 - b. Identify criteria which will be considered in evaluating individual performance and expected proficiency, such as:
 - i. technical knowledge;
 - ii. analytical and judgemental abilities;
 - iii. communication skills;
 - iv. leadership and training skills;
 - v. client relations;
 - vi. personal attitude and professional bearing (character, intelligence, judgement and motivation); and
 - vii. qualification as a professional accountant for advancement to a supervisory position.
 - c. Use a personnel manual or other means to communicate advancement policies and procedures to personnel.

8. Evaluate performance of personnel and advise them of their progress.
 - a. Gather and evaluate information on performance of personnel.
 - i. Identify evaluation responsibilities and requirements at each level indicating who will prepare evaluations and when they will be prepared.
 - ii. Instruct personnel on the objectives of personnel evaluation.
 - iii. Utilise forms, which may be standardised, for evaluating performance of personnel.
 - iv. Review evaluations with the individual being evaluated.
 - v. Require that evaluations be reviewed by the evaluator's superior.
 - vi. Review evaluations to determine that individuals worked for and were evaluated by different persons.
 - vii. Determine that evaluations are completed on a timely basis.
 - viii. Maintain personnel files containing documentation relating to the evaluation process.
 - b. Periodically counsel personnel as to their progress and career opportunities.
 - i. Review periodically with personnel the evaluation of their performance, including an assessment of their progress with the firm. Considerations would include the following:
 - performance;
 - future objectives of the firm and the individual;
 - assignment preference; and
 - career opportunities.
 - ii. Evaluate partners periodically by means of senior partner or fellow partner evaluation and counselling as to whether they continue to have the qualifications to fulfil their responsibilities.
 - iii. Review periodically the system of personnel evaluation and counselling to ascertain that:
 - procedures for evaluation and documentation are being followed on a timely basis;
 - requirements established for advancement are being achieved;
 - personnel decisions are consistent with evaluations; and
 - recognition is given to outstanding performance.
9. Assign responsibility for making advancement decisions.
 - a. Assign responsibility to designated persons for making advancement and termination decisions, conducting evaluation interviews with persons considered for advancement, documenting the results of the interviews, and maintaining appropriate records.
 - b. Evaluate data obtained giving appropriate recognition in advancement decisions to the quality of the work performed.

- c. Study the firm's advancement experience periodically to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility.

C. ACCEPTANCE AND RETENTION OF CLIENTS

Policy

Prospective and existing clients are evaluated and reviewed on an ongoing basis. In making a decision to accept or retain a client, the firm's independence and ability to serve the client properly and the integrity of the client's management are considered.

Procedures

1. Establish procedures for evaluation of prospective clients and for their approval as clients.
 - a. Evaluation procedures could include the following:
 - i. Obtain and review available financial statements regarding the prospective client, such as annual reports, interim financial statements and tax returns.
 - ii. Enquire of third parties as to any information regarding the prospective client and its management and principals which may have a bearing on evaluating the prospective client. Enquiries may be directed to the prospective client's bankers, legal advisers, investment bankers, and others in the financial or business community who may have such knowledge.
 - iii. Communicate with the outgoing auditors. Request in writing of the outgoing auditors if there are any unusual circumstances surrounding the proposed change which the firm should be aware of, so that it may determine whether it should accept nomination.
 - iv. Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.
 - v. Evaluate the firm's independence and ability to serve the prospective client. In evaluating the firm's ability, consider needs for technical skills, knowledge of the industry and personnel.
 - vi. Determine that acceptance of the client would not violate the Statements of Professional Ethics issued by the HKICPA.
 - b. Designate an individual or group, at appropriate management levels, to evaluate the information obtained regarding the prospective client and to make the acceptance decision.
 - i. Consider types of engagements that the firm would not accept or which would be accepted only under certain conditions.
 - ii. Provide for documentation of the conclusion reached.
 - c. Inform appropriate personnel of the firm's policies and procedures for accepting clients.
 - d. Designate responsibility for administering and monitoring compliance with the firm's policies and procedures for acceptance of clients.
2. Evaluate clients upon the occurrence of specified events to determine whether the relationships ought to be continued.
 - a. Events specified for this purpose could include:

- i. the expiration of a time period;
 - ii. a major change in one or more of the following:
 - management
 - directors
 - ownership
 - legal advisers
 - financial condition
 - litigation status
 - scope of the engagement
 - nature of the client's business; and
 - iii. the existence of conditions which would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.
- b. Designate an individual or group, at appropriate management levels, to evaluate the information obtained and to make retention decisions.
 - i. Consider types of engagements that the firm would not continue or which would be continued only under certain conditions.
 - ii. Provide for documentation of the conclusion reached.
 - c. Inform appropriate personnel of the firm's policies and procedures for retaining clients.
 - d. Designate responsibility for administering and monitoring compliance with the firm's policies and procedures for retention of clients.

D. ASSIGNMENT

Policy

Audit work is assigned to personnel who have the degree of technical training and proficiency required in the circumstances.

Procedures

1. Delineate the firm's approach to assigning personnel, including the planning of overall firm and office needs and the measures employed to achieve a balance of audit manpower requirements, personal skills, individual development and utilisation.
 - a. Plan the personnel needs of the firm on an overall basis and for individual practice offices.
 - b. Identify on a timely basis the staffing requirements of specific audits.
 - c. Prepare time budgets for audits to determine manpower requirements and to schedule audit work.
 - d. Consider the following factors in achieving a balance of audit manpower requirements, personal skills, individual development and utilisation:
 - i. audit size and complexity;
 - ii. personnel availability;
 - iii. special expertise required;

- iv. timing of the work to be performed;
 - v. continuity and periodic rotation of personnel; and
 - vi. opportunities for on-the-job training.
2. Assign an appropriate person or persons to be responsible for assigning personnel to audits.
- a. Consider the following in making assignments of individuals:
 - i. staffing and timing requirements of the specific audit;
 - ii. evaluations of the qualifications of personnel as to experience, position, background, and special expertise;
 - iii. the planned supervision and involvement by supervisory personnel;
 - iv. projected time availability of individuals assigned; and
 - v. situations where possible independence problems and conflicts of interest may exist, such as assignment of personnel to audits for clients who are former employers or are employers of certain kin.
 - b. Give appropriate consideration, in assigning personnel, to both continuity and rotation to provide for efficient conduct of the audit and the perspective of other personnel with different experience and backgrounds.
3. Provide for approval of the scheduling and staffing of the audit by the auditors.
- a. Submit, where necessary, for review and approval the names and qualifications of personnel to be assigned to an audit.
 - b. Consider the experience and training of personnel in relation to the complexity or other requirements of the audit, and the extent of supervision to be provided.

E. DELEGATION

Policy

Sufficient direction, supervision and review of work at all levels is carried out in order to provide reasonable assurance that the work performed meets appropriate standards of quality.

Procedures

1. Provide procedures for planning audits.
- a. Assign responsibility for planning an audit. Involve appropriate personnel assigned to the audit in the planning process.
 - b. Develop background information or review information obtained from prior audits and update for changed circumstances.
 - c. Describe matters to be included in the overall audit plan and the audit programme.
 - i. Development of proposed work programmes for particular areas of audit interest.
 - ii. Determination of manpower requirements and need for specialised knowledge.

- iii. Development of estimates of time required to complete the audit.
 - iv. Consideration of current economic conditions affecting the client or its industry and their potential effect on the conduct of the audit.
- 2. Provide procedures for maintaining the firm's standards of quality for the audit work performed.
 - a. Provide adequate supervision at all organisational levels, considering the training, ability and experience of the personnel assigned.
 - b. Develop guidelines for the form and content of working papers.
 - c. Utilise standardised forms, checklists, and questionnaires to the extent appropriate to assist in the performance of audits.
 - d. Provide procedures for resolving differences of professional judgement among personnel involved in an audit.
- 3. Provide on-the-job training during the performance of audits.
 - a. Emphasise the importance of on-the-job training as a significant part of an individual's development.
 - i. Discuss with assistants the relationship of the work they are performing to the audit as a whole.
 - ii. Involve assistants in as many portions of the audit as practicable.
 - b. Emphasise the significance of personnel management skills and include coverage of these subjects in firm training programmes.
 - c. Encourage personnel to train and develop subordinates.
 - d. Monitor assignments to determine that personnel
 - i. fulfil, where applicable, the experience requirements of the relevant legislative, regulatory or professional body;
 - ii. gain experience in various areas of audits and varied industries; and
 - iii. work under different supervisory personnel.

F. CONSULTATION

Policy

Whenever necessary, consultation within or outside the firm is to occur with those who have appropriate expertise.

Procedures

- 1. Identify areas and specialised situations where consultation is required and encourage personnel to consult with or use authoritative sources on other complex or unusual matters.
 - a. Inform personnel of the firm's consultation policies and procedures.
 - b. Specify areas or specialised situations requiring consultation because of the nature or complexity of the subject matter. Examples include:

- i. application of newly issued technical pronouncements;
 - ii. industries with special accounting, auditing or reporting requirements;
 - iii. emerging practice problems; and
 - iv. filing requirements of legislative and regulatory bodies, particularly those of a foreign jurisdiction.
 - c. Maintain or provide access to adequate reference libraries and other authoritative sources.
 - i. Establish responsibility for maintaining a reference library in each practice office.
 - ii. Maintain technical manuals and issue technical pronouncements, including those relating to particular industries and other specialties.
 - iii. Maintain consultation arrangements with other firms and individuals where necessary to supplement firm resources.
 - iv. Refer problems to a division or group in the professional body established to deal with technical enquiries.
2. Designate individuals as specialists to serve as authoritative sources and define their authority in consultative situations.
 - a. Designate individuals as specialists for dealings with regulatory bodies.
 - b. Designate specialists for particular industries.
 - c. Advise personnel of the degree of authority to be accorded specialists' opinions and of the procedures to be followed for resolving differences of opinion with specialists.
3. Specify the extent of documentation to be provided for the results of consultation in those areas and specialised situations where consultation is required.
 - a. Advise personnel as to the extent of documentation to be prepared and the responsibility for its preparation.
 - b. Indicate where consultation documentation is to be maintained.
 - c. Maintain subject files containing the results of consultations for reference and research purposes.

G. MONITORING

Policy

The continued adequacy and operational effectiveness of quality control policies and procedures are monitored.

Procedures

1. Define the scope and content of the firm's monitoring programme.
 - a. Determine the monitoring procedures necessary to provide reasonable assurance that the firm's other quality control policies and procedures are operating effectively.
 - i. Determine objectives and prepare instructions and review programmes for use in conducting monitoring activities.

- ii. Provide guidelines for the extent of work and criteria for selection of engagements for review.
 - iii. Establish the frequency and timing of monitoring activities.
 - iv. Establish procedures to resolve disagreements which may arise between reviewers and engagement or management personnel.
 - b. Establish levels of competence, etc., for personnel to participate in monitoring activities and the method of their selection.
 - i. Determine criteria for selecting monitoring personnel, including levels of responsibility in the firm and requirements for specialised knowledge.
 - ii. Assign responsibility for selecting monitoring personnel.
 - c. Conduct monitoring activities.
 - i. Review and test compliance with the firm's general quality control policies and procedures.
 - ii. Review selected engagements for compliance with professional standards and with the firm's quality control policies and procedures.
- 2. Provide for reporting findings to the appropriate management levels, for monitoring actions taken or planned, and for overall review of the firm's quality control system.
 - a. Discuss general findings with appropriate management personnel.
 - b. Discuss findings on selected engagements with engagement management personnel.
 - c. Report both general and selected engagement findings and recommendations to firm's management together with corrective actions taken or planned.
 - d. Determine that planned corrective actions were taken.
 - e. Determine need for modification of quality control policies and procedures in view of results of monitoring activities and other relevant matters.