



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

SAMPLE QUALITY CONTROL MANUAL

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Disclaimer

The Manual is designed to assist practitioners in the implementation of the International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", but is not intended to be a substitute for the ISQC 1 itself. Furthermore, a practitioner should utilize the Manual in light of his or her professional judgment and the facts and circumstances involved in their firm and each particular engagement. Each practitioner is encouraged to develop their own manual for the execution of their role. ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Manual.

Acronyms Used in the Manual

IAASB	International Auditing and Assurance Standards Board
IES	International Education Standard
IFAC	International Federation of Accountants
IESBA Code	IESBA Code of Ethics for Professional Accountants
IFAC Handbook	IFAC Handbook of International Standards on Auditing, Assurance, and Ethics Pronouncements
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
ISAE	International Standard on Assurance Engagements
ISQC	International Standard on Quality Control
ISRE	International Standard on Review Engagements
ISRS	International Standard on Related Services
SME	Small- and Medium-Sized Entity
SMP	Small- and Medium-Sized Practice

Purpose

The objective of the Manual is to maintain and enhance the quality of performance related to the conduct of a firm as a whole.

Practitioners should ensure that communications with personnel describe in detail the quality control policies and procedures, in addition to the objectives they are designed to achieve. They should also emphasize that each individual has a personal responsibility for quality and is expected to comply with the firm's policies and procedures.

ISQC 1 deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements.

SAMPLE QUALITY CONTROL MANUAL

Sample Manual – Who is it for? How do you use it?

The policies and procedures suggested in this sample manual are designed to assist such firms in the establishment and implementation of a system of quality control in compliance with ISQC 1. The content of this manual should be reviewed and amended to fit the circumstances of each firm. The acronyms used to designate leadership positions should be changed to reflect the titles used within the firm.

For the purposes of this manual, the term “staff” refers to professionals, other than partners, including any experts the firm employs.

General Policy Statement

It is the firm's objective to establish, implement, maintain, monitor, and enforce a quality control system that provides reasonable assurance that the partners and staff members of the firm comply with the International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and that the firm's engagement reports are appropriate for the circumstances.

General Roles and Responsibilities of All Partners and Staff

Each partner and staff member is, to varying degrees, responsible for implementing the firm's quality control policies.

The Managing Partner (MP) exercises ultimate authority and responsibility for the system of quality control on behalf of the partners.

All partners and staff are required to conform with this manual.

1.0 LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

1.1 Tone at the Top

The firm's partner(s) decide on all key matters regarding the firm and its professional practice.

The partner(s) accept responsibility for leading and promoting a quality assurance culture within the firm and for providing and maintaining this manual and all other necessary practical aids and guidance to support engagement quality.

The partner(s) are responsible for determining the firm's operating and reporting structure. In addition, the firm will designate from among our-selves or other qualified staff, on an annual or other periodic basis, the person(s) responsible for the elements of the quality control system.

The overall responsibility for the operation of the quality control system is delegated to the Managing Partner (MP).

Any individuals who take on specific responsibilities and duties will be assessed regarding sufficient and appropriate experience and ability to carry out their responsibilities.

1.2 Leadership Positions

Throughout this quality control manual, reference is made to various leadership positions within the firm. These roles are defined as follows:

MP (Managing Partner)

Responsible for monitoring the effectiveness of work performed by all other leadership positions. In small- and medium-sized practices, this position is also ordinarily responsible for all complaint and allegation matters. [This function may be shared more or less equally in a two or three partner firm. In many four or five partner firms, this function is assigned to one partner and sufficient time and compensation are allocated to support the assignment.]

OCR (Quality Control Reviewer)

Any professional performing the function of engagement quality control review.

EL (Ethics Leader)

Person required to consult and respond on all matters related to ethics, including independence, conflict of interest, and privacy and confidentiality.

HR (Human Resources Personnel)

Person(s) responsible (need not be a partner) for all human resource functions, including recordkeeping with respect to professional duties such as fees and continuing professional development.

2.0 RELEVANT ETHICAL REQUIREMENTS

The firm recognizes the value and authority of the Ethics Leader (EL) in all ethical matters. The EL has responsibility for:

- Maintenance of ethics policies;
- Identifying required policy changes as they relate to ethics (particular emphasis will be placed on this function following each monitor's report);
- Providing guidance and consultation on ethics-related matters to partners and staff (for example, independence, conflict of interest);
- Maintenance of a client listing of all significant public interest entities (for independence purposes);
- Monitoring compliance with firm policy and procedures on all ethics matters;
- Reporting instances of non-compliance with firm policy to the MP (or partners); and
- Coordinating training with the HR for all ethics-related matters.

2.1 Independence

The partners and all staff must be independent both in mind and appearance of their assurance clients and engagements.

Independence shall be maintained throughout the engagement period for all assurance engagements, as set forth in and by:

- ICPAU Code of Ethics;
- IESBA Code of Ethics;
- ISQC 1; and
- International Standard on Auditing (ISA) 220, "Quality Control for an Audit of Financial Statements."

If threats to independence cannot be eliminated or reduced to an acceptable level by applying appropriate safeguards, the firm shall eliminate the activity, interest, or relationship that is creating the threat, or refuse to accept or continue the engagement (where withdrawal is not prohibited by law or regulation).

Instances of non-compliance with the independence requirements shall be reported to the MP.

2.1.1 Responsibilities – The Firm

The firm is responsible for the development, implementation, monitoring, and enforcement of policies and procedures designed to assist all partners and staff in understanding, identifying, documenting, and managing independence threats and for the resolution of independence issues that arise prior to or during engagements.

The EL is responsible for, and must ensure an appropriate resolution of independence threats that the engagement team has not adequately resolved or reduced to an acceptable level.

The MP is ultimately responsible on the firm's behalf and, therefore (after consultation with other partners), has the final decision on any independence threat resolution, including:

- Resignation from a specific engagement or client relationship;
- Determining and imposing specified safeguards, actions, and procedures to manage threats and potential threats appropriately;
- Hearing and investigating unresolved independence compliance concerns raised by members of the engagement team (or by other partners or staff);
- Ensuring appropriate documentation of the process and resolution of each significant independence issue;
- Invoking sanctions for non-compliance;
- Initiating and participating in pre-emptive planning measures to help avoid and manage potential independence concerns; and
- Arranging additional consultation, if needed.

All partners and staff are required to review their specific circumstances for any independence threats or potential threats, and to inform the EL of any such threats identified.

The firm must document the details of identified threats and the safeguards that were applied.

It is the responsibility of the EL to maintain a listing of all clients who are listed entities and their related entities, if any, in addition to a database of prohibited investments. These listings will be made easily accessible to all partners and staff.

2.1.2 Responsibilities – Partners and Staff

All partners and staff are required to be aware of and understand the ICPAU and IESBA Codes. The firm's independence policy requires all members of the engagement team to meet these provisions for all assurance engagements and reports issued.

All partners and staff are required to provide the firm annually with written confirmation that they understand and have complied with ICPAU Code, Section 290 of the IESBA Code and the firm's independence policies.

Each partner or staff member assigned to an assurance engagement shall confirm to the engagement partner that he or she is independent from the client and engagement, or notify the engagement partner of any threat or possible threat to independence so that appropriate safeguards can be applied.

Partners and staff must notify the engagement partner if, to their knowledge, any member of the engagement team has, during the disclosure period, provided any service that would be prohibited under Section 290 of the IFAC Code or other regulatory authority, which could result in the firm being unable to complete an assurance engagement.

When asked by the engagement partner, members of the engagement team shall take whatever reasonable actions are necessary and possible to eliminate or reduce any independence threat to an acceptable level through the application of appropriate safeguards. These actions may include:

- Ceasing to be a member of the engagement team;
- Ceasing or altering specific types of work or services performed in an engagement;
- Divesting of a financial or ownership interest;
- Ceasing or changing the nature of personal or business relationships with clients;
- Submitting work for additional review by other partners and staff; and
- Taking any other reasonable actions that are appropriate in the circumstances.

Partners and staff shall make referrals to the EL in all instances where an ethics issue has arisen that requires further consultation and discussion in order to determine appropriate disposition of the matter. Such matters, once determined, will be documented.

If a partner or staff member is not satisfied that an independence issue or concern is being appropriately addressed or resolved, the individual shall inform the MP.

2.1.3 Rotation of Personnel on Audit Engagements for Listed Entities

The partners and staff must follow Section 290 of the IFAC Code regarding mandatory rotation of engagement partners and engagement quality control reviewers on all audit engagements for listed entities.

When the audit client is a listed entity, and the engagement partner or QCR has been involved with the client for a period of *five years* this individual shall not participate in the engagement until *a further period of three years* has elapsed. Some degree of flexibility may be permitted in limited circumstances, such as when the engagement partner or QCR's continuity on the audit engagement is especially important. In these cases, equivalent safeguards will be applied to reduce any threats to an acceptable level. Such safeguards, at a minimum, will include an additional review of the work performed by another partner or alternate QCR who has not been associated with the audit team. The circumstances under which rotation would not be recommended or required should be compelling.

When a significant independence threat involving the engagement partner or QCR is recurring, rotation would be the primary safeguard necessary to reduce the threat to an acceptable level.

Assessing independence of the engagement team is an important part of client acceptance and continuance procedures. When the assessment concludes that rotation of certain individual(s) is necessary, the matter must be referred to the EL.

When a matter is referred to the EL, it is presumed that rotation of some kind is required.

After reviewing the circumstances (including the client's expected reaction) and consulting other partners, the EL will provide a decision in writing as soon as possible on whether

rotation is necessary. If rotation is deemed necessary, the MP will assign the new party and specify the length of the stand-down period and any other relevant requirements.

2.1.4 Rotation of Personnel on Audit Engagements for Non-Listed Entities

For non-listed entities, if rotation is deemed necessary, the EL will identify the replacement and specify the period for which the individual shall not participate in the audit of the entity and other safeguards necessary to comply with any other relevant requirements.

2.2 Conflict of Interest

The partners and staff must follow Section 220 of the IFAC Code regarding any interests, influences, or relationships that may create a conflict of interest. Partners and staff must be free of any interests, influences, or relationships in respect of the client's affairs which impair professional judgment or objectivity.

2.2.1 Conflict of Interest – The Firm

The firm is responsible for the development, implementation, compliance, enforcement, and monitoring of practice methods and procedures designed to assist all partners and staff in understanding, identifying, documenting, and addressing conflicts of interest, and determining their appropriate resolution.

The EL will ensure that appropriate procedures are followed when conflicts and potential conflicts of interest have been identified. Whenever a conflict or potential conflict is identified, the partners or staff will not act or provide advice or comment until they have thoroughly considered the situation and reviewed the facts and circumstances, and the EL agrees that the required safeguards and communications are in place and it is appropriate to act.

The decision to act or provide advice in these circumstances is extremely rare and it is suggested that the details be fully documented.

After consultation with other partners and staff, the EL shall have the final authority on the resolution of any conflict of interest situation, which could include:

- Refusing or discontinuing the service, engagement, or action;
- Determining and requiring specified actions and procedures to appropriately address the conflict, protect sensitive and client-specific information, and ensure appropriate consents are obtained and disclosures made when it is determined to be acceptable to act;
- Appropriately documenting the process, safeguards applied, and decisions or recommendations made;
- Administering partner and staff discipline procedures and sanctions for non-compliance; and
- Initiating and participating in pre-emptive planning measures to assist in avoiding conflict of interest situations that may arise.

2.2.2 Conflict of Interest – Partners and Staff

All partners and staff should review their specific circumstances and advise the firm of any conflicts of interest or potential conflicts involving themselves or their immediate family. Partners and staff should also determine and disclose whether any conflicts of interest between themselves and the firm's clients exist, particularly if they provide services directly to these clients, and should inform the EL of any significant conflicts or potential conflicts. They should exercise due care, follow firm policy, and discuss the particular circumstances with the EL, when appropriate, to determine how to address the situation and whether a particular service should be avoided.

The client will be notified of the partner's or staff's business interest or activities that may represent a conflict of interest, all relevant known parties in situations in which the firm is acting for two or more parties in respect of a matter where their respective interests are in conflict, and will notify the client that the firm does not act exclusively for any one client in the provision of proposed services. In all cases, the client's consent to act should be obtained.

When the firm decides to accept or continue the engagement, partners and staff shall document within the engagement file identified conflicts, typically in the acceptance and continuance or planning sections. This will include any correspondence or discussions concerning the nature of the conflict, as well as any consultations with others, conclusions reached, safeguards applied, and procedures followed to address the conflict situation.

If internal confidentiality is required, it may be necessary to prevent other partners and staff from having access to the information with the use of firewalls; physical, personnel, file, and information security; specific non-disclosure agreements; or segregation and lock-down of files or access to data. When these measures are taken, all partners and staff involved shall respect and abide by them without exception. Generally, however, situations requiring such measures will be avoided.

If partners or staff are unsure of their responsibilities regarding the assessment of a conflict or potential conflict, it is suggested that a discussion be held with other non-involved personnel to request help with the assessment. If a conflict situation is significant and particularly sensitive, the matter shall be referred to the EL for review.

If partners or staff become aware of others acting (knowingly or inadvertently) in situations contrary to firm policies or specific determinations regarding engagements (other than a trivial or inconsequential instance), it is recommended that the matter be immediately referred to the EL. If the matter has not been appropriately addressed, it should be referred to the MP.

2.3 Confidentiality

All partners and staff shall protect and keep confidential any client information that is required to be kept confidential and protected according to governing laws, regulatory authorities, Section 140 of the IFAC Code, firm policy, and specific client instructions or agreements.

Client information and any personal information obtained during an engagement shall be used or disclosed only for the purpose for which it was collected.

Personal and client information will only be retained as defined by the firm's access and retention policy. Documents will be kept on file for as long as is necessary to fulfill professional, regulatory or legal requirements.

Firm policy requires personal and client information to be as accurate, complete, and up-to-date as possible.

Firm policy permits an individual or client (with appropriate authorization), upon request, to be informed of the existence, use, and disclosure of personal information or specified equivalent business information and provides (as appropriate) access to this information. This information does not necessarily include working papers, which are the firm's property.

2.3.1 Confidentiality – The Firm

The firm is required to fulfill its legal, professional, and fiduciary duties regarding privacy legislation (if applicable) and Section 140 of the IESBA Code.

These requirements extend to the privacy legislation in the country in which the firm resides, and may also extend to any other countries where the firm provides services.

The firm shall meet these obligations in the following ways.

The firm appoints an EL who is ultimately responsible for implementation, compliance, and enforcement of protection of personal information under the firm's control and for client confidentiality. The EL has final authority on the resolution of privacy and client confidentiality situations.

The firm communicates its policies and provides access to information on guidance, rules, and interpretations through this quality control manual, other firm documentation (such as training materials), and electronically, to educate all partners and staff on privacy and client confidentiality requirements and issues.

The firm policy requires the maintenance of industry-standard technology, including firewalls, hardware, and software, as well as data transmission and storage procedures designed to retain, catalogue, and recover electronic information and protect this information from unauthorized access or inappropriate use (both internally and externally) (if applicable).

The firm policy requires the maintenance of internal and external hard-copy file handling and storage procedures and facilities to protect, retain, catalogue, and recover file information and to protect this information from unauthorized access or inappropriate use (both internally and externally).

The firm also requires that a declaration of confidentiality be signed by all personnel upon hire, and annually thereafter, and that this documentation be maintained on file. All personnel are expected to be thoroughly familiar with the firm's policy statement on confidentiality and to comply with it. Acknowledgement of this understanding will be evidenced by way of signature on the firm's confidentiality agreement.

3.0 ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

3.1 Acceptance and Continuance

The firm and its partners and staff shall accept new engagements or continue existing engagements and client relationships only after the engagement partner, based on a review process conducted by the (prospective) engagement team, has approved the acceptance or continuance of the engagement, in accordance with the firm policies and procedures.

3.1.1 Acceptance and Continuance – The Firm

The firm uses established procedures to provide it with reasonable assurance that it identifies and assesses the potential sources of risk associated with a new client relationship or a specific engagement.

For each ongoing engagement, a documented client continuance review will be required to determine whether it is appropriate to continue providing the client with services, based on the prior engagement and planning for the continuing engagement. This review will also include consideration of any rotation requirements.

The engagement partner must approve and sign off on the decision to accept or continue an engagement.

If, after completing the acceptance and planning phase of the engagement, significant risks associated with the client or engagement have been identified, the matter shall be discussed with the MP. The formal approval of the MP will be required, and the firm must document how the issues were resolved. If the concerns involve ethics-related matters, the EL must also provide approval.

A partner shall not approve the acceptance of a new engagement client or the continuance of an existing client if there are high risks (ethical, independence, conflict of interest, financial, compliance by the client with IFRSs or co-operation by the client needed to apply ISAs, and so on), without agreement in writing from another partner.

If, after accepting or continuing an engagement, the firm receives information, which, if known earlier, would have resulted in a refusal of the engagement, the firm must consider whether to continue the engagement and will normally seek legal advice regarding its position and options to ensure that it meets any professional, regulatory, and legal requirements.

3.2 New Client Proposals

An evaluation of a prospective client and authorized approval shall precede issuance of any client proposal.

For each new engagement client, a review process must be undertaken and documented before the firm can accept the engagement. This process will include an assessment of the risks associated with the client.

The firm will make inquiry of personnel or third parties in making its determination of whether to consider a new client proposal. The firm may also engage in background searches, such as making use of any online information that may be readily available.

Once a determination has been made to accept a new client, the firm shall meet the relevant ethical requirements (such as communicating with the former firm if required by the member body code of ethics) and will prepare an engagement letter for signature by the new client.

3.3 Resignation of a Client Relationship

The firm has a defined process to be followed when it has been determined that withdrawal from an engagement is necessary. This process includes consideration of the professional, regulatory, and legal requirements and any mandatory reporting which must be undertaken as a result.

A partner will undertake to meet with the client's management and those charged with governance to discuss the facts and circumstances leading to the withdrawal.

The firm will document the significant matters which led to the withdrawal, including the results of any consultation, the conclusions reached, and the basis for these conclusions.

If there is a professional, regulatory or legal requirement which compels the firm to continue the engagement, the reasons for continuance should be documented, including consideration of consultation with the legal counsel.

4.0 HUMAN RESOURCES

The firm recognizes the value and authority of the HR in all human resource matters. The HR has responsibility for:

- Maintenance of human resource policies;
- Identifying required policy changes resulting from labor laws and regulations, and to remain competitive in the marketplace;
- Providing guidance and consultation on human resource related matters;
- Maintenance of performance evaluation appraisal systems;
- As requested, recommending specific actions or procedures appropriate to the circumstance (that is, discipline, recruitment);
- Scheduling of in-house professional development;
- Maintenance of personnel files (including annual declarations of independence, acknowledgement of confidentiality, and continuing professional development reports); and
- Development and delivery of orientation training.

4.1 Recruitment and Retention

The MP and HR must assess professional service requirements in order to ensure the firm has the capacity and competence necessary to meet its clients' needs. This will ordinarily include a detailed expectation of engagement requirements over the course of each calendar period in order to identify peak periods and potential resource shortages.

The HR uses current application, interviewing, and documentation processes with respect to hiring, which include confirmation of academic and professional credentials, and reference checks.

Additional firm policy or procedures for recruitment are provided in the human resource manual.

The firm requires all new personnel to be provided with orientation information as soon as is practical after commencing employment. The orientation materials will include a complete copy of the firm's policies and procedures. A probationary period of 6 months applies to all new personnel.

The firm endeavors to identify opportunities for its personnel's career development in order to retain competent professionals and to provide support for the firm's sustainability and continued growth.

The firm periodically reviews the effectiveness of its recruitment program together with an assessment of its current resource needs to identify whether revisions to the program are required.

4.2 Continuing Professional Development

Partners and staff must meet the minimum continuing professional development requirements as defined in *ICPAU Continuing Professional Development Guidelines* (in accordance with IFAC's International Education Standard (IES) 7, *Continuing Professional Development* which prescribes that IFAC member bodies implement a continuing professional development (CPD) requirement as an integral component of a professional accountant's continued membership, and IES 8, *Professional Development for Engagement Partners Responsible for Audits of Financial Statements* which prescribes competence requirements for audit professionals, and which IFAC member bodies need to establish via policies and procedures that members satisfy. Additional continuing professional requirements may be expected by member bodies or regulators in various jurisdictions.)

Attendance at external professional development courses must be approved by HR.

Partners and staff are responsible for maintaining their own professional development records (and, where applicable, adhering to the firm's guidelines). The MP or HR collects and reviews these records annually with each partner or staff member.

4.3 Assignment of Engagement Teams

Through its policies and procedures, the firm ensures the assignment of appropriate partners and staff (individually and collectively) to each engagement. The responsibilities of the engagement partner are clearly defined in this manual and in the engagement templates provided by the firm. The engagement partner, in consultation with the MP, plans the assignment of partners and staff. The engagement partner is also responsible for ensuring that the individuals assigned, and the engagement team as a whole, have the necessary competencies to complete the engagement according to professional standards and the firm's quality control system.

The identity and roles of the engagement partner will be communicated to the client's management and other parties responsible for the entity's governance.

The firm is responsible for ensuring that the engagement partner assigned to each assurance engagement has the necessary competencies and enough time to assume overall responsibility for performing the engagement according to professional standards and applicable regulatory and legal requirements.

The engagement partner will also plan for coaching opportunities between junior and senior personnel to guide the development of less experienced staff.

When determining the appropriate personnel to assign to an engagement, particular attention will be given to continuity with the client, balanced with rotation requirements, in order to ensure adequate complement and opportunity to the engagement team.

The MP has ultimate responsibility and authority for all engagement scheduling matters and will be the final arbiter regarding human and other resource conflicts.

4.4 Enforcement of Quality Control Policies (Discipline)

The firm's quality control system requires more than effective monitoring. An enforcement process is essential, and includes consequences and corrective procedures for non-compliance, disregard, lack of due care and attention, abuse, and circumvention.

The MP has overall responsibility for the firm's disciplinary process. Corrective action is determined and administered through a consultative process, not in an autocratic fashion. The corrective action taken will depend on the circumstances.

Serious, wilful, and repeated infractions or disregard for firm policies and professional rules cannot be tolerated. Appropriate steps must be taken to correct the partner or staff member's behavior or terminate the person's relationship with the firm.

Additional firm disciplinary policy or procedures are provided in the human resources manual.

4.5 Rewarding Compliance

Compliance with the firm's policies will be considered and addressed in the specific and overall assessment of individual partners and staff on an ongoing basis and in the regularly scheduled personnel review process.

Appropriate weighting will be assigned to the traits identified in the assessment of job performance and in determining remuneration levels, bonuses, advancement, career development, and authority within the firm.

Performance appraisals, conducted on a periodic basis, will include the form and content as defined by firm policy.

5.0 ENGAGEMENT PERFORMANCE

Through established policies and procedures and its quality control system, the firm requires that engagements be performed according to professional standards and applicable regulatory and legal requirements.

The firm's overall systems are designed to provide reasonable assurance that the firm and its partners and staff adequately and properly plan, supervise, and review engagements and produce engagement reports that are appropriate in the circumstances.

To facilitate partner and staff performance on engagements consistently and according to professional standards and regulatory and legal requirements, the firm provides sample working paper templates for documenting the engagement process for clients. These templates are updated as required to reflect any changes in professional standards. Staff use these templates to document key facts, risks, and assessments related to acceptance or continuation of each engagement. Staff are encouraged to exercise professional judgment when modifying such templates to ensure that such matters are appropriately documented and assessed for each engagement in accordance with professional standards and firm policies.

Also available are research tools and reference materials; a quality control system, as set out in this manual; appropriate industry-standard software and hardware tools, including data and system access security; and guidance, training, and education policies and programs, including support for compliance with ICPAU's professional development requirements.

When performing any engagement, all partners and staff are required to:

- Follow and adhere to firm planning, supervision, and review policies;
- Use (modifying as appropriate) the firm's templates for file preparation, documentation, and correspondence, as well as its software, research tools, and the signing and release procedures appropriate for the engagement;
- Follow and adhere to the ethical policies of the profession and the firm;
- Perform their work to professional and firm standards with due care and attention;
- Document their work, analysis, consultations, and conclusions sufficiently and appropriately;
- Complete their work with objectivity and appropriate independence, on a timely and efficient basis, and document the work in an organized, systematic, complete, and legible manner;
- Ensure that all working papers, file documents, and memoranda are initialled, properly cross-referenced, and dated, with appropriate consultation on difficult or contentious matters;
- Ensure that appropriate client communications, representations, reviews, and responsibilities are clearly established and documented; and

- Ensure that the engagement report reflects the work performed and intended purpose and is issued soon after the fieldwork is complete.

5.1 Role of the Engagement Partner

The engagement partner is responsible for signing the engagement report. As leader of the engagement team, this individual is responsible for:

- The overall quality for each engagement to which the engagement partner is assigned;
- Forming a conclusion on compliance with independence requirements from the client, and, in doing so, obtaining the information required to identify threats to independence, taking action to eliminate such threats or reduce them to an acceptable level by applying appropriate safeguards, and ensuring that appropriate documentation is completed;
- Ensuring that appropriate procedures regarding the acceptance and continuance of client relationships have been followed, and that conclusions reached in this regard are appropriate and have been documented;
- Communicating promptly to the firm any information obtained that would have caused the firm to decline the engagement if that information had been available earlier, so that the firm and the engagement partner can take the necessary action;
- Ensuring that the engagement team collectively has the appropriate capabilities, competence, and time to perform the engagement in accordance with professional standards and regulatory and legal requirements;
- Supervising and/or performing the engagement in compliance with professional standards and regulatory and legal requirements, and ensuring that the engagement report issued is appropriate in the circumstances;
- Communicating to key members of the client's management and those charged with governance his or her identity and role as engagement partner;
- Ensuring, through review of the engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the engagement report to be issued;
- Taking responsibility for the engagement through appropriate consultation (both internal and external) on difficult or contentious matters; and
- Determining when a QCR should be appointed in accordance with professional standards and firm policy; discussing significant matters arising during the engagement and identified during the engagement quality control review with the QCR; and not dating the report until the review is complete.

5.2 Consultation

The firm encourages consultation among the engagement team and, for significant matters, with others inside and, with authorization, outside the firm. Internal consultation uses the firm's collective experience and technical expertise (or that available to the firm) to reduce

the risk of error and improve the quality of engagement performance. A consultative environment improves the partner or staff's learning and development process and adds strength to the firm's collective knowledge base, quality control system, and professional capabilities.

For any significant, difficult, or contentious issue identified during planning or throughout the engagement, the engagement partner shall consult other partners and staff who have the appropriate experience, knowledge, competency, and authority. Whenever possible, all professionals within the firm should assist each other in dealing with and reaching conclusions on such problematic issues.

The firm will ensure the availability of sufficiently skilled personnel and financial and information resources to allow appropriate internal or external consultations to take place.

When internal consultation is sought and the issue is determined to be significant, the engagement team member shall document the consultation and the result. When external consultation is required, and authorized by the engagement partner or MP, the situation shall be formally documented. The external expert's opinions or positions shall be sufficiently documented, providing enough detail to allow file readers to understand the full extent of the nature of the consultation, the external expert's qualifications and relevant competencies, and the course of action recommended.

The external expert shall be supplied with all relevant facts to be able to provide informed advice. When seeking advice, it is not appropriate to withhold facts or direct the information flow in order to get a particular desired result. The external expert shall be independent of the client, free of conflict of interest, and held to a high standard of objectivity.

The external expert's advice will ordinarily be implemented as the resolution or form part of the resolution of the contentious issue. If the advice is not implemented or is substantially different from the conclusion, there shall be an explanation documenting the reasons and alternatives considered, with (or cross-referenced to) the consultation record provided by the engagement partner.

If more than one consultation is completed, a summary of the general discussions and range of opinions or options provided shall be added to the working papers. The final position(s) adopted and the reasons for this shall also be documented.

For all external consultations, privacy rights and client confidentiality requirements must be observed. It may be necessary to seek legal advice on these or other issues regarding ethics, professional conduct, or regulatory and legal matters.

5.3 Differences of Opinion

The firm and its partners and staff shall take any steps necessary, according to firm and professional standards, to adequately identify, consider, document, and resolve differences of opinion that may arise in a wide range of circumstances.

All partners and staff shall strive to be objective, conscientious, open-minded, and reasonable in assisting, facilitating, or reaching a timely and non-confrontational resolution of any disputes or differences of opinion.

Anyone who is party to a dispute or difference of opinion shall attempt to resolve the matter in a timely, professional, respectful, and courteous manner through discussion, research, and consultation with the other individual(s).

If the matter cannot be resolved or there is uncertainty over what action shall be taken, the parties shall refer the matter to a more senior engagement team member or the engagement partner.

If the issue involves a specific area of professional oversight or practice administration within the firm, it shall be referred to the partner responsible for this area, preferably by the engagement partner. The engagement partner will consider the matter and decide, through consultation with the parties, how to resolve the matter. That partner shall then inform the parties of the decision and the reasons behind it.

If a dispute or difference of opinion remains, or one or more of the individuals involved is not satisfied with the partner's decision(s), the individual(s) shall consider whether the matter is enough of a quality control concern or may be of sufficient impact to warrant referring it directly to the engagement partner or MP.

All partners and staff are protected from any form of retribution, career limitation, or punitive actions for bringing attention to a legitimate and significant issue, in good faith and with the true interests of the public, client, firm, or co-worker in mind.

Partners and staff shall understand that referring a matter beyond an engagement team or engagement partner level is serious and must not be minimized since it will likely require substantial partner time to address. The referral can be verbal if highly sensitive or confidential (although the practice of verbal referrals is discouraged), or in writing.

The MP will consider the issue, and if it is determined to be significant and with merit, will consult with other partners and inform the parties involved of the firm's decision. In all cases, the nature and scope of, conclusions resulting from, and consultations undertaken during the course of the engagement shall be documented.

If the individual is still not satisfied with the matter's resolution and no further recourse is available within the firm, the individual will need to consider the matter's significance, along with his or her professional responsibilities and position or continuing employment with the firm.

Disputes or differences of opinion shall be documented in the same way as consultations for any matter involving an engagement. In all instances, the engagement report will not be dated until the matter is resolved.

The written partnership agreement shall set out dispute resolution and partnership dissolution policies to follow when disagreement proves too difficult to settle amicably.

5.4 Engagement Quality Control Review (EQCR)

All engagements must be assessed against the firm's established criteria (see below) to determine whether an EQCR shall be performed. This assessment should be made, in the case of a new client relationship, before the engagement is accepted, and in the case of a continuing client, during the planning phase of the engagement.

Firm policy shall require the engagement partner to resolve issues raised by the QCR, to his or her satisfaction, before dating the engagement report.

An EQCR is required before dating any audit of the financial statements of listed entities. In any other circumstances where an EQCR is conducted, the engagement report shall not be dated until completion of the EQCR.

5.4.1 Criteria requiring an EQCR

A completed quality control review may be considered for engagements before dating an engagement report when:

- It is part of a set of safeguards applied where the engagement partner has a significant and recurring independence threat resulting from a prolonged close personal relationship or close business relationship with the client, which had been previously reduced to an acceptable level by other safeguards;
- An identified threat to independence involving the engagement partner is recurring, deemed significant, and cannot be reasonably reduced to an acceptable level by other safeguards;
- The engagement's subject matter relates to organizations that are important to specific communities or the general public;
- A large number of passive shareholders, equivalent-ownership unit holders, partners, co-venturers, beneficiaries, or other similar parties receive and rely on the engagement report;
- There is significant risk identified and associated with the decision to accept or continue the engagement, as set out in Chapter 3, Acceptance and Continuance of Client Relationships and Specific Engagements;
- There are questions about an entity's ability to continue as a going concern, and the potential impact to third-party users (other than management) is significant;
- Substantial impacts and risks to users involve new and very complex specialized transactions, such as derivatives and hedges, stock-based compensation, unusual financial instruments, extensive use of management estimates, and judgments that potentially have significant impact to third-party users;
- The entity is a large private entity (or related group under the responsibility of the same engagement partner); and
- The total fees paid by the client represent a large proportion to either an individual partner or of the firm's annual gross revenue (for example, greater than 10-15%).

Additionally, there may be factors which trigger an engagement quality control review after an engagement has already commenced. These may include situations where:

- The risk of the engagement has increased during the engagement, for example, where the client becomes the focus of a takeover;
- There is concern among engagement team members that the report may not be appropriate in the circumstances;
- New and significant users of the financial statements are identified;
- The client is subject to significant litigation which was not present during the engagement acceptance process;

- The significance and disposition of corrected and uncorrected misstatements identified during the engagement are a concern;
- There have been disagreements with management on significant accounting matters or audit scope limitations; and
- There have been scope limitations.

5.4.2 Nature, Timing, and Extent of an Engagement Quality Control Review

The engagement partner must review the file and any identified issues before the full EQCR. The decision to conduct an EQCR, even if the engagement meets the criteria, and the extent of the EQCR, will depend on the engagement's complexity and associated risks. An EQCR will not diminish the engagement partner's responsibility for the engagement.

The EQCR shall include, as a minimum:

- A discussion of significant matters with the engagement partner;
- A review of the financial statements or other subject matter information and the proposed report;
- Consideration of whether the proposed report is appropriate in the circumstances; and
- A review of selected working paper file documentation relating to the significant judgments the engagement team made and the conclusions it reached.

The firm shall have the QCR use a standardized engagement quality control checklist in order to complete the review and provide appropriate documentation of such review.

For listed entities (and other organizations if included in the firm's policy), the EQCR must also consider:

- The engagement team's evaluation of the firm's independence in relation to the specific engagement;
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations; and
- Whether documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

The QCR shall be involved early in the engagement process to allow for timely review on any significant issues that arise during the engagement. Consideration will be given to performing parts of the review as the engagement progresses.

For smaller engagements or engagements with less risk and complexity, the QCR shall at least be consulted when the planning is complete, to allow enough time to adjust the engagement approach according to the QCR's assessments and suggestions.

The engagement report shall not be dated until the completion of the engagement quality control review.

5.4.3 Engagement Quality Control Reviewer (QCR)

The firm is responsible for establishing criteria for the appointment of QCRs and determining their eligibility.

The firm has appointed the MP to carry out these responsibilities, including designating partners and staff the responsibility for EQCR and determining the engagements to which they can be assigned.

The QCR must be objective, independent, and have sufficient training, experience, technical expertise, and authority, as well as the ability and time to fulfill this role. The characteristics commonly attributed to a candidate suitable to serve in this role include superior technical knowledge of current accounting and assurance standards and a breadth of experience which would be exhibited at a senior level.

The QCR cannot be a member of the engagement team and cannot, directly or indirectly, review his or her own work, or make important decisions regarding the performance of the engagement.

Consultation among qualified professionals who serve the EQCR function is encouraged, and it is not unusual for the engagement team to consult with the QCR during the engagement. This will not normally compromise the QCR's objectivity, as long as the engagement partner (and not the QCR) makes the final decisions and the issue is not overly significant. This process can avoid differences of opinion later in the engagement.

If the objectivity of the QCR becomes compromised following a consultation on a specific matter, the firm should appoint an alternate QCR.

6.0 MONITORING

The quality control policies and procedures are a key part of the firm's internal control system. Monitoring consists primarily of understanding this control system and determining – through interviews, walk-through tests, and file inspections – whether, and to what extent, this control system is operating effectively. It also includes developing recommendations to improve the system, especially if weaknesses are detected or if professional standards and practices have changed.

The firm relies on every partner or staff member at all levels to informally monitor and enforce quality, ethics, and professional and firm standards. This monitoring shall be inherent in every aspect of professional work. Partners and staff who are in a position to make decisions or oversee the work of others have a greater level of responsibility.

The firm will also consider any feedback received from the institute's audit monitoring programme. However, this is not a substitute for the firm's own internal monitoring program.

Safeguards that act as monitoring mechanisms for the firm include:

- Internal and external education and training programs;
- Requirements that partners and staff know, understand, and enforce the firm's policies and procedures for engagement reviews, quality control reviews, and engagement partner approvals;
- A policy statement instructing partners and staff not to release any engagement financial statement information of any kind unless all necessary approvals are signed off;
- The firm's standard engagement completion and release control system, which outlines the required approvals and sign-offs by engagement type, function, and individual responsible;
- Instructions to the engagement partner and QCR to monitor the appropriate approvals on an ongoing basis; and
- Instructions to all partners and staff to advise appropriate senior personnel within the firm when they observe significant or repeated smaller breaches of firm policies or protocols.

The firm must be mindful of the need to inspect the quality control system for continuing effectiveness in light of recent developments and to test controls periodically through formal monitoring at the engagement file level to ensure the controls are working effectively and are not being deliberately circumvented or applied with less rigour than intended.

The decision either to contract with an independent party or set up an internal monitoring system, and its terms of reference, will be dependent upon the firm's resource levels at the time of the inspection and its ability to conduct the program effectively. This determination will be made at each inspection cycle by the MP, through consultation with all partners.

6.1 Monitoring Program

The responsibility for monitoring the application of quality control policies and procedures is separate from the overall responsibility for quality control. The purpose of the monitoring program is to assist the firm in obtaining reasonable assurance that its policies and procedures relating to the system of quality control are relevant and operating effectively. The program shall also help ensure compliance with practice and regulatory review requirements.

The system has been designed to provide the firm with reasonable assurance that significant and sustained breaches of policy and quality control are unlikely to occur or go undetected. Those involved in the engagement team or as OCR on a particular engagement are not eligible to act as a monitor on the same file.

All partners and staff must co-operate with the monitor, recognizing that this individual is an essential part of the quality control system. Support of the partners and managers of the process and to reinforce the monitor's comments and findings is of particular importance. Disagreement, non-compliance with, or disregard for the monitor's findings shall be resolved through the firm's dispute resolution process.

The firm shall conduct compliance monitoring on a selection of individual engagements, which may be chosen without prior notification to the engagement team. Although it is desirable to select one or more completed and released engagements, for each engagement partner at each inspection, the firm may choose to inspect a number of engagements annually, but will ensure that each partner's files are selected on at least a cyclical basis.

6.2 Inspection Procedures

Monitoring of the firm's quality control system will be completed on a periodic basis. The selection of individual engagements for inspection will be conducted annually, with each partner's files being inspected on a cyclical basis.

The inspection cycle will span a three-year period.

The monitor will consider the results of previous monitoring, the nature and extent of authority given to individual partners and staff, the nature and complexity of the firm's practice, and the specific risks associated with the firm's client when designing the inspection.

The firm will instruct the monitor to prepare appropriate documentation of inspections that will include:

- An evaluation of adherence to professional standards and applicable regulatory and legal requirements;
- The results from evaluating elements of the quality control system;
- An evaluation of whether the firm has appropriately applied quality control policies and procedures;
- An evaluation of adherence to professional standards and applicable regulatory and legal requirements;

- An evaluation of whether the engagement report is appropriate in the circumstances;
- Identification of any deficiencies, their effect, and a decision on whether further action is necessary, describing this action in detail; and
- A summary of results and conclusions reached (provided to the firm), with recommendations for corrective actions or changes needed.

The engagement partners will meet to review the report (along with other appropriate personnel) and decide on the corrective action and/or changes to make to the system, roles and responsibilities, disciplinary action, recognition, and other matters as determined.

All partners and staff will be provided with information on the monitoring process's results annually, including a detailed description of the monitoring process and its conclusions on the firm's overall compliance and effectiveness.

6.3 Report on the Results of Monitoring

After completing the annual assessment of the quality control system, the monitor must report the results to the MP, engagement partners, and other appropriate personnel. The report must include a detailed description of the procedures performed and the conclusions drawn from the review. If systemic, repetitive, or significant deficiencies are noted, the report must also include the action taken to resolve them.

The firm will instruct the monitor to prepare a report that will, at a minimum, include:

- A description of the monitoring procedures performed;
- The conclusions drawn from the monitoring procedures; and
- Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions recommended to resolve these deficiencies.

6.4 Evaluating, Communicating, and Remedying Deficiencies

The firm shall address all deficiencies detected and reported by the monitor. The firm shall consider whether these deficiencies indicate structural flaws in the quality control system or demonstrate non-compliance by a particular partner or staff member.

Structural flaws indicated by deficiencies may require changes to the quality control or documentation system. The monitor shall refer these changes to the partners and staff responsible for the quality control or documentation system so that the correction can be made.

The firm shall carefully consider significant deficiencies and follow professional standards and regulatory and legal requirements if it appears it has issued an inappropriate engagement report or that the engagement report's subject matter contained a misstatement or inaccuracy. In such a circumstance, the firm will also consider obtaining legal advice.

If deficiencies are determined to be systemic or repetitive, immediate corrective action will be taken. In most cases, deficiencies related to independence and conflict of interest will require immediate corrective action.

The HR shall review detected deficiencies to determine whether courses or supplemental education could effectively address some of the issues behind the deficiencies.

6.4.1 Non-compliance

Non-compliance with the firm's quality control system is a serious matter, particularly if a partner or staff member has wilfully refused to comply with firm policy.

Since the quality control system is in place to protect public interest, the firm will address wilful non-compliance transparently and rigorously. Wilful non-compliance will be addressed in a number of ways, including instituting a plan to improve performance; performance reviews and reconsideration of opportunities for promotion and increased compensation; and ultimately termination of employment.

In some circumstances, it may be necessary to impose a temporary oversight regime for partners and staff who have difficulty complying with the quality control system. This may include requiring a review of the work performed by another partner, or having the monitor assess the work before release of the engagement report. Alternatively, the firm may restrict the type of work performed, for example, by restricting involvement in engagements of larger entities, on either a temporary or a permanent basis.

6.5 Complaints and Allegations

The firm recognizes the authority of the MP in all complaint and allegation matters.

Complaints and allegations — particularly concerning failure to exercise a duty of care in relation to client work, or other breach of professional or legal duties by partners and staff toward each other or clients — are serious matters. The MP shall give serious consideration to notifying the firm's insurance company and/or seeking legal advice. If there is any uncertainty, he or she shall consult other partners, or other trusted professional colleagues.

Any complaint received from a client or other third party will be responded to at the earliest practical moment, with an acknowledgement that the matter is being attended to, and that a response will be forthcoming after it has been appropriately investigated.

The firm maintains a defined policy with accompanying procedures that details the process to be followed in a complaint or allegation arises.

The results from this process will be documented together with the response.

The investigation of such matters will be assigned to the MP and may be delegated to competent, experienced partners or staff who are not involved in the allegation or complaint.

The process provides that all partners and staff are free to raise concerns without fear of reprisal.

7.0 DOCUMENTATION

7.1 Documentation of the Firm's Policies and Procedures

The firm maintains policies and procedures that specify the level and extent of documentation required in all engagements and for general firm use (as established in the firm manual/engagement templates). It also maintains policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

These policies ensure that documentation is sufficient and appropriate to provide evidence of:

- Adherence to each element of the firm's quality control system; and
- Support for each engagement report issued, according to professional and firm standards and regulatory and legal requirements, together with evidence that the EQCR has been completed on or before the date of the report (if applicable).

7.2 Documentation of the Engagement

It is the firm's policy that engagement documentation shall include:

The firm should determine the engagement documentation requirements needed in order to demonstrate it has met its professional, regulatory, and legal requirements. It is suggested that consideration be given to:

- Engagement planning checklist or memorandum;
- Identified issues with respect to ethics requirements (including demonstration of compliance);
- Compliance with independence requirements and documentation of any discussions related to these issues;
- Conclusions reached with respect to acceptance and continuance of client relationship;
- Procedures performed to assess the risk of material misstatement due to fraud or error at the financial statement and assertion level;
- Nature, timing, and extent of procedures performed in response to assessed risk including results and conclusions;
- Nature, scope, and conclusions drawn from consultations;
- All communications issued and received;
- Results of the EQCR which has been completed on or before the date of the report;
- Confirmation that no unresolved matters exist that would cause the reviewer to believe that the significant judgments made and conclusions drawn were not appropriate;
- Conclusion that sufficient, appropriate audit evidence has been accumulated and evaluated, and supports the report to be issued; and
- File closing, including appropriate sign-off.

Firm policy requires that final assembly of the engagement file be completed within 30 days. If there are two or more reports issued for the same subject matter information, firm policy

should indicate that the time limits for assembly of the engagement file should be such that each report is treated as if it were a separate engagement.

Documentation of any kind must be retained for a period of no less than seven years to allow those performing monitoring procedures to evaluate the extent of the firm's compliance with its internal control system, as well as the needs of the firm, as required by professional standards, law, or regulations.

7.3 Documentation of the Engagement Quality Control Review

Every partner or staff member serving in the capacity of QCR must complete the firm's standardized EQCR checklist, in order to provide documentation that the review was performed. This must include confirmation and supporting evidence or cross-references to it, affirming that:

- Appropriately qualified partners and staff have performed the procedures required for an EQCR;
- The review was completed on or before the date of the engagement report;
- The conclusions have been reached through the EQCR process; and
- No unresolved matters have come to the QCR's attention that would cause him or her to believe the engagement was not performed according to professional standards and applicable regulatory and legal requirements.

7.4 File Access and Retention

The firm has established policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the engagement documentation.

These policies include consideration of various retention requirements under statute and regulations to ensure that engagement documentation is retained for a period sufficient to meet the needs of the firm.

All working papers, reports, and other documents prepared by the firm, including client-prepared worksheets, are confidential and shall be protected from unauthorized access.

An engagement partner or MP must approve all external requests to review working papers and any release of the documents will not be completed until this approval is obtained.

Working papers will not be made available to third parties unless:

- The client has authorized disclosure in writing;
- There is a professional duty to disclose the information;
- Disclosure is required by a legal or judicial process; or
- Disclosure is required by law or regulation.

Unless prohibited by law, the firm must inform and obtain written authorization from the client before making working papers available for review. An authorization letter must be obtained when there is a request to review files from a prospective purchaser, investor, or

lender. Legal advice shall be sought if the client does not authorize any necessary disclosure of information.

In the event of litigation or potential litigation, or regulatory or administrative proceedings, working papers shall not be provided without obtaining consent from the firm's legal counsel.

The firm's policy dictates that each of the following types of files shall be kept for a period not less than 7 years:

- Permanent files
- Tax files
- Financial statements and reports
- Annual or periodic working papers
- Correspondence
- Client working papers and files

An accessible, permanent record of all files stored off-site will be maintained, and each storage container will be appropriately labeled for easy identification and retrieval. The partner responsible for office administration shall approve any destruction of files and keep permanent records of all materials destroyed.

Appendix A

Partner and Staff Independence

[Firm's letterhead]

[Date]

[Addressed to the firm]

Acknowledgement of Independence

I confirm to the best of my knowledge and belief that I am in compliance with the firm's policies and procedures, which include Section 290 of the IFAC Code of Ethics for Professional Accountants on independence [except for matters listed in Schedule A].

If the reference to schedule A is deleted:

Initial here _____

Name: _____

Position: _____

Date: _____

Appendix B

Partner and Staff Independence

List and briefly explain the nature of all matters that to the best of your knowledge and belief might affect independence. Refer to Section 290 of the IFAC Code when completing the list.

Each item will be reviewed by the engagement partner. Further information may be necessary to determine what action, if any, is required.

All decisions and the course of action to be followed shall be fully documented.

Description	Detail how Independence Might be Affected	Appropriate Safeguard Applied (if applicable) to Eliminate or Reduce Threats to an Acceptable Level

Appendix C

[Sample] Declaration of Confidentiality

[Firm's letterhead]

(It is good practice to have a declaration of confidentiality signed at the beginning of a staff member's employment, and to have the document re-signed annually thereafter, to serve as a reminder of the requirement.)

[Date]

Dear []:

To ensure continued compliance with Section 140 of the IFAC Code, pertaining to our professional responsibilities and the protection of our clients, it is essential that the affairs of our clients remain confidential. Confidential information refers to any information about our clients which comes to an individual's attention as a result of his or her association with the firm, unless such information is publicly available.

I have read, understood, and complied with the firm's statement of policy on confidentiality regarding the affairs of the firm's clients.

Name: _____

[Signed] _____

[Date] _____