

**Decision No. 140 of 2006**  
**Dated 18/ 12/ 2006**  
**Regarding Quality Control Standards for Firms and Individuals**  
**Performing Auditing and Limited Reviews of Historical Financial**  
**Information**

**CMA Chairman**

After reviewing the Law on joint stock companies, partnerships limited by shares, and limited liability companies promulgated by Law No. 159 of 1981 and its Executive Regulations;

Law on Capital Market promulgated by Law No. 95 of 1992 and its Executive Regulations;

Presidential Decree No. 51 of 1997 on rules governing Cairo and Alexandria Stock Exchanges and their financial affairs;

the CMA Board of Directors' decree No. 6 of 2006 dated 26/7/2006 approving controls for registration in the register of auditors of companies listed in the official lists (1) and (2), and unofficial list No.1, as well as securities intermediaries and mutual funds;

Decree of the CMA Chairman No. 96 of 2006 dated 22/8/2006 regarding requirement of registration in the CMA register for auditors.

**Decided**

**Article (1)**

The attached standard shall be used to control quality of firms and individuals who perform auditing and limited review of historic and financial data, other verification engagements, and related services effective 1/1/2007.

**Article (2)**

In application of Article (6) of Decree No. 96 of 2006 (dated 22/8/2006), all auditors listed on the CMA auditor's register shall apply this standard.

**Article (3)**

All auditors listed on the CMA auditor register shall submit all documents and forms that enable the CMA to verify compliance of auditors with quality control standard within two weeks from date of request, or according to time limit defined by the CMA.

**Article (4)**

All competent entities shall implement this Decree, each in its respective scope.

**CMA Chairman**  
**Dr. Hani Sarie-ELDin**

## **EGYPTIAN QUALITY CONTROL STANDARD**

Quality control for audit firms performing audits and limited reviews of historical and financial information, other verification engagements, and the related services

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## Introduction

1. This standard aims to set standards and provide guidelines on responsibilities of any audit firm in terms of the quality control system for audits and limited examination of financial historical data, other verification engagements and the related services. The Egyptian quality control standard should be read together with parts (A) and (B) of the general code of ethics and conduct of practicing accountants and auditors.
2. Other issues set standards and provide guidelines about the responsibilities of a firm's staff regarding quality control procedures for specific types of engagements. Egyptian audit standard No. 220, "Quality Control for Audit of Financial and Historical Information", highlights, for example, standards, and provides guidelines regarding quality control procedures for reviewing financial historical information.
3. The firm must develop a quality control system to assure it to a certain degree that the firm and its staff comply with professional standards, and legal and regulatory requirements, and that reports produced by the firm, or the responsible partners are appropriate in the circumstances.
4. The quality control system comprises policies designed to achieve objectives set in Item (3) above, as well as necessary procedures for enforcing and monitoring compliance with such policies.
5. The Egyptian quality control system applies to all firms. The nature of policies and procedures set by each firm to comply with the Egyptian standard for quality control shall depend on various elements such as size of the firm, operating characteristics, and whether it is a member firm or not.

## Definitions

6. The following are definitions of some basic terms in the Egyptian Quality Control Standard:
  - a) "Responsible partner": a partner, or another person in the firm, who is responsible for its engagements, performance, and report issued by the firm; should have appropriate organizational, legal, or professional powers.
  - b) "Pre-report issue examination": a process designed to provide, prior to release of report, an objective assessment about important judgments and conclusions reached by the work team during report drafting process.
  - c) "pre-report issue examiner": a partner, another person in the firm, a person from outside the firm with appropriate qualifications, or a group of persons with suitable and sufficient experience and authority to evaluate major

judgments/opinions and conclusions reached in an objective manner by the work team during drafting of the report and prior to its issue.

- d) "Work team": all persons who perform the engagement, including experts contracted by the firm for matters related to the engagement.
- e) "Firm": a person, office, firm, or any other establishment for professional accountants
- f) "Examination": a set of procedures to provide evidence of compliance of work team with the firm's quality control policies and procedures during performance of its engagement
- g) "Listed establishment": an establishment which has its shares and securities, or debt instruments, listed in a recognized securities market; or which has its shares traded according to provisions of a recognized securities market, or any similar entity
- h) "Oversight": a process involving on-going care and valuation of the quality control system at the firm, periodic examination of a group of performed engagements, with the purpose of enabling the firm to get a suitable degree of assurance that the quality control system at the firm is working efficiently.
- i) "A member firm": an establishment subject to control, ownership and joint management of the firm
- j) "Partner": any person with powers to obligate the company in terms of performance of professional services tasks.
- k) "Persons": partners and staff
- l) "Professional standards": work performance standards as specified by the Committee for Egyptian audit standards in "*An introduction to Egyptian Standards for Quality Control, Audit, Assurance, and Related Services*", in addition to other ethical and conduct requirements (which naturally represent Parts (A) and (B) of the General Code of Ethics for Accounting and Audit Practitioners), and other related moral and local conduct requirements.
- m) "Appropriate assurance degree": in context of Egyptian standards of quality control, a high, but not absolute, level of assurance
- n) "Staff": professionals- other than partners- including any expert hired by the firm
- o) "A properly qualified external person": a person from outside the firm who is capable and efficient enough to perform the role of a responsible partner. For example, a partner from another firm; an employee with proper experience from a professional accounting entity that allows its members to perform audits and limited examination of financial historical information, other assurance tasks; or other related services; or an authority that provides related quality control services.

## **Elements of Quality Control System**

7. A quality control system in the firm should include policies and procedures regarding the following elements:
  - (a) Responsibilities of the leaders of the firm regarding quality therein
  - (b) Ethical and conduct requirements
  - (c) Acceptance and continuance of relationships with customers and specific engagements
  - (d) Human resources
  - (e) Performance of engagements
  - (f) Oversight
  
8. Quality control policies and procedures must be documented and disseminated to staff at the firm. This information should describe quality control policies and procedures, and their objectives. It should also have a mission statement, i.e. each person has a personal responsibility regarding quality and is expected to comply with these policies and procedures. In addition, the firm is aware of the importance of receiving feedback from its staff. It should encourage them on as related to the quality control system in the firm so as to give to the management of the firm their feedback and interests in matters related to quality control.

## **Responsibilities of the firm leaders for quality therein**

9. The firm should develop policies and procedures to enhance internal culture based on awareness that quality is necessary for performance of engagements. Such policies and procedures should require that the CEO of the firm (or his equivalent), or, if appropriate, board of the partners of the firm (or its equivalent), be ultimately responsible for the quality control system inside the firm.
  
10. Being an example to be looked upon, the leadership of the firm affects the internal culture of the firm, of which its quality-oriented development depends on repeated, consistent and clear activities, messages addressed from the firm management tiers stressing quality control procedures and policies, as well as requirements for the following:
  - (a) Performing activities in line with professional standards, and legal and organizational requirements
  - (b) Issuing reports appropriate in the circumstances

These activities and messages encourage nurturing a culture of appreciation and reward for high quality work. This can be achieved through workshops, or meetings, or direct and indirect dialogue, or mission statement, or news bulletins, or brief memoranda. Thus, actions and messages are integrated into the internal

documentation of the firm, training materials, evaluation procedures for partners and staff so that they support and boost the opinion of the firm regarding importance of quality and how to achieve it practically.

11. The need of the leadership of the firm to be aware that the strategy of the activities of the firm is subject to its main objective, i.e. achieving quality in all tasks performed by the firm. Accordingly, the firm should:
  - (a) Define managements responsibilities so that commercial considerations should not come first before quality of work performed.
  - (b) Develop policies and procedures oriented towards evaluating performance, remuneration, bonuses, and promotions (including incentives system) for staff to show the essential commitment of the firm to quality.
  - (c) Allocate sufficient resources to develop, document, and support quality control policies and procedures.
12. Any person(s) who has been assigned by the firm CEO, or the board of partners, responsibility for operating the quality control system in the firm should have enough and appropriate experience and capabilities, as well as powers for undertaking such responsibility.
13. Appropriate and sufficient experience and capabilities enables the person(s) in charge to identify and understand quality control issues, and develop suitable policies and procedures. In addition, power granted to such person(s) enables him to implement these policies and procedures.

## **Ethical and Conduct Requirements**

14. The firm should develop policies and procedures to provide it with appropriate assurance that the firm and its staff comply with ethical and conduct requirements
15. Usually, ethical requirements related to audits and examination of financial historical information, other aspects of assurance and related services include Items (A) and (B) of the Egyptian General Ethics Code for Accounting and Audit Practitioners. This Code comprises basic principles for professional ethics including:
  - (a) Integrity
  - (b) Objectivity
  - (c) Professional efficiency and due diligence
  - (d) Confidentiality

(e) Professional conduct

16. Part (B) of the Egyptian General Code of Ethics for Accounting and Audit Practitioners includes a fundamental trend toward independence in assurance engagements that takes into consideration risks that may face independence, acceptable protection and public interest.
17. Policies and procedures of the firm stress the fundamental principles it supports, especially:
- (a) Leadership of the firm
  - (b) Education and training
  - (c ) Oversight
  - (d) How to deal with non-compliance

Independence in assurance engagements is considered important enough to be addressed separately in items 18-27 herein. These items should be read together with the Egyptian General Code of Ethics for Accounting and Audit Practitioners

## **Independence**

18. The firm should develop policies and procedures with the purpose of providing it with suitable degree of assurance that the firm and its staff, and all those subject to independence (including experts engaged by the firm and staff in the member firm), should maintain independence according to the Egyptian General Code of Ethics for Accounting and Audit Practitioners. Such policies and procedures should enable the firm to:
- (a) Communicate [concept] of independence requirements to its staff and those subject to such requirements.
  - (b) Define and assess circumstances and relations that threaten independence, and take suitable procedures to eliminate, or mitigate, to an acceptable degree, such threats, by applying protection, or, if appropriate, withdraw from engagements.
19. Such policies and procedures require that
- (a) Responsible partners provide the firm with information related to client's engagements including scope of services provided so as to enable the firm to assess total impact (if any) upon the independence requirements
  - (b) Staff informs the firm of circumstances and relations that compromise independence so as to take appropriate action.
  - (c ) Relevant information be collected and communicated to individuals to:
    - (a) Enable the firm and its staff to define easily whether they can satisfy independence requirements

- (b) Enable the firm to maintain and update records related to independence
  - (c) Enable the firm to take appropriate procedures regarding specific threats that may face independence
20. The firm should develop policies and procedures with the purpose of providing it with an appropriate level of assurance that it has been notified of violations to independence requirements to enable it to take suitable actions to address such situations. Policies and procedures should include requirements so that
- (a) any person subject to independence requirements can immediately notify the firm of any violation to independence he becomes aware of
  - (b) the firm can immediately communicate violations set forth in these policies and procedures to
    - (1) responsible partner who needs to discuss the violation with the firm
    - (2) other relevant staff in the firm, as well as those subject to independence requirements and need to take suitable action.
  - (c) Responsible partner and persons mentioned in item (b)(2) above can immediately communicate to the firm (if necessary) all actions taken to solve the problem, so that the firm can decide whether to take another action or not.
21. Section 8 of the Egyptian code provides complete list of threats that compromise independence, and protection rules including application to specific situations.
22. The firm receives notification of violation to policies and procedures of independence by remitting related information quickly to responsible partners, other persons at the firm with equivalent position, experts engaged by the firm, and staff at the firm and its branches to take appropriate action.
- The appropriate action that the firm or the concerned responsible partner that may take include applying appropriate protection rules to eliminate threats compromising independence, mitigate them to a reasonable degree, or pull out of the assignment altogether. In addition, the firm provides special training on independence for staff requesting independence.
23. The firm should, at least on an annual basis, get written acknowledgments to the effect of compliance with policies and procedures related to independence from all staff at the firm who are required to be independent according to the Egyptian ethics manual for accounting and audit practitioners
24. Acknowledgments must be written on paper or in a soft copy. The degree of importance the firm gives to independence is demonstrated by how much it makes it clear and known to staff that they should submit such acknowledgments.

25. Egyptian Ethics Code discusses familiar threats arising from engaging the same senior staff in an assurance engagement for a long time, and the protection rules that may be suitable for addressing such threats.

Therefore, the firm should develop policies and procedures to

- (a) clarify protection standards to be applied to mitigate familiar threats to an acceptable level in the case of assigning the same senior staff in a verification engagement for a long time
- (b) require change of responsible partner in charge of financial statements of listed establishments after a specific period in accordance with Egyptian General Ethics Code for Accounting and Audit Practitioners

26. Assigning the same senior staff to verification engagements for extended periods of time may create a familiar threat, or, in another way, compromise the quality of the engagement performance. Hence, the firm should develop criteria to determine need for protection rules to address this threat.

To determine appropriate standards, the firm takes into consideration some issues such as:

- (1) Nature of the engagement, including how far the engagement is related to matters of interest to the public good.
- (2) How much time senior staff spends on the engagement. An example of protection rules is replacing senior staff, or requesting performing quality control of engagements.

27. The Egyptian Ethics Code for Accounting and Audit Practitioners acknowledges familiar threats of special significance as related to auditing financial statements of listed companies. It requires replacing the responsible partner who performs these audits after a specific period (usually not exceeding seven years). It also provides related instructions and standards.

## **Acceptance and continuation of relations with clients and some specific engagements**

28. The firm must develop policies and procedures for acceptance and continued relations with clients and some specific engagements with the purpose of providing it with an appropriate degree of assurance that it will not undertake, or continue relations or engagements until it

- (a) has taken into consideration integrity of the client, and has no information that may make it question his integrity
- (b) is efficient enough to perform the engagement and has sufficient capabilities, time and resources to do so
- (c) has made sure that it can meet ethical and conduct requirements

The firm must get information that it deems necessary under these circumstances before accepting any engagement from a new client, or when considering accepting a new one from a current client.

The firm should, upon considering acceptance or continuance of relationship with a client or a specific engagement, document how it has made its decision.

29. As regards integrity of the client, the issues that the firm takes into consideration include, inter alia:
- identity and reputation of the major owners of the client, top management, stakeholders and those in charge of its governance
  - nature of client's operations including commercial practices
  - information about major owners of the client, top management, stakeholders, and persons in charge of its governance vis-à-vis certain issues such as unusual interpretations of the accounting standards and internal audit environment
  - if the client strongly insists to keep the fees of the firm as low as possible.
  - evidence of existing constraints of work scope
  - evidence that client may be involved in money laundering, or other criminal activities
  - reasons behind nominating the institution instead of the former one

The firm will know more about the integrity of the client as their relation continues.

30. Information related to such issue can be obtained through various ways such as:
- contact current and former providers of professional accounting services to the client according to Egyptian General Ethics Code for Accounting and Audit Practitioners, and discussions with other parties.
  - ask other staff at the firm or other parties (e.g. bankers, legal advisors, and industrialists)
  - search for any information that may be available at information centers

31. When the firm has the capability, efficiency, time and resources to undertake a new engagement for a new or current client, it should examine specific requirements for the engagement, current partner, and general specifications of staff at all related levels.

Matters that the firm should take into consideration are as follows:

- how much staff at the firm know about the business of the client
- experience of the staff at the firm about regulatory requirements, reporting, or ability to acquire necessary skills and knowledge efficiently
- available staff with necessary capabilities and efficiency

- available experts if needed
  - available persons who will meet requirements of the standards and power to conduct quality control of engagement
  - ability of the firm to deliver engagement in due time
32. The firm should take into consideration whether accepting an engagement with a new client may give rise to actual or noticeable conflict of interests. Once it determines possible conflict, it should consider whether it is proper to accept the engagement or not.
33. Taking a decision on continuing relation with a client involves consideration of substantial issues that may have occurred during current or former engagements, and their impact on continuation of the relation. For example, the client may have started expanding his commercial business in an area where the firm does not know about and does not have enough experience.
34. If the firm has access to information that may have made it decline the engagement if such information was available earlier, policies should include the procedures related to the study of:
- (a) professional and legal liabilities governing such conditions e.g. whether the firm is required to inform person(s) who appointed it, or, in some cases, oversight authorities
  - (b) possible withdrawal from engagement only, or quitting engagement and discontinuing relation with the client
35. Discussing policies and procedures for withdrawing from engagement only, or engagement and discontinuing relation with client involve the following:
- conduct discussion with appropriate level of the client's management, and persons in charge of the firm governance, regarding suitable action that the firm may take on the basis of existing facts and conditions.
  - if the firm decides that it is appropriate to withdraw, it should discuss with client's management and persons in charge of its governance about withdrawal from the mission, or both withdrawal and discontinuing relations with client, and reasons.
  - consider whether the firm is professionally, or regulatory, or legally required to continue engagement, or report to oversight authorities quitting the engagement only, or both withdrawing from engagement and discontinuing relation with clients and reasons thereof
  - document substantive matters related to consultations, conclusions and the related reasons.

## Human resources

36. The firm shall develop policies and procedures to provide it with an appropriate assurance degree that it has enough staff with the required qualifications and compliance with the ethics necessary for performing engagement according to professional, regulatory standards and legal requirements to enable the firm or responsible partners to issue reports reflecting circumstances.

37. Such policies and procedures shall address the following personnel related matters:

- (a) recruitment
- (b) performance evaluation
- (c ) capabilities
- (d) efficiency
- (e) professional development
- (f) promotion
- (g) remuneration and bonuses
- (h) staff requirements assessment

Discussing these matters enables the firm to determine number and characteristics of staff required to perform its tasks. The firm's recruitment process includes procedures that help it to select persons with integrity and potential development of capabilities and skills to perform its work.

38. Capabilities and skills are developed by several ways including:

- professional education
- on-going professional growth (which involves training)
- work experience
- learning through a more experience team (e.g. other members of the work team)

39. On-going efficiency of the firm's staff essentially depends on an appropriate level of continuous professional growth to maintain their knowledge and skills.

Hence, the firm stresses in its policies and procedure the need for ongoing education at all levels of staff, provide training sources and resources to enable its staff to develop and maintain their skills and efficiency. In this pursuit, it may engage the services of a person with appropriate qualifications

for this purpose in case of lack of internal technical and training sources, or for any other reason.

40. Procedures of performance evaluation, determining remuneration, bonuses, and promotion at the firm provide the proper recognition and the required resources to develop and maintain skills and compliance with ethics. Specifically, the firm should
- (a) make staff aware of its expectations regarding performance and ethics
  - (b) provide staff with evaluation and consultation regarding performance, progress and professional development.
  - (c) help staff understand that promotion to positions with higher responsibilities depends on quality performance and compliance with ethics and conduct; and that non-compliance with its policies and procedures may result in a disciplinary action.
41. Size and conditions of the firm affect the structure of the performance evaluation process it undertakes. Smaller firms, in particular, may use less formal methods for evaluating performance of its staff.

### **Assigning work team**

42. The firm should assign the responsible partner every task. It should also develop policies and procedures that require that:
- a) Top management team and persons in charge of governance of the client's establishment should be familiarized with identity and role of the responsible partner
  - b) The responsible partner must have appropriate skills, efficiency, power, as well as sufficient time to undertake his role.
  - c) The responsibilities of the responsible partner must be clearly spelled out and explained to him
43. The policies and procedures should include control systems for watching work load and the availability of responsible partners so that they have enough time to perform their responsibilities.
45. The firm should develop procedures to assess skills and efficiency of the staff, which includes the following when considering formation of work team and determining the required oversight level:
- Understanding and practical experience of engagements with similar nature and complexity level. This can be achieved through training and participation in work.
  - Understanding professional standards and regulatory and legal conditions
  - Appropriate technical knowledge (including related information technology)
  - Knowledge of the client's operations

- Ability to apply professional principles
- understanding quality control policies and procedures as developed by the firm

## **Engagement performance**

46. The firm should develop policies and procedures with the purpose of providing it with appropriate degree of verification that engagements are carried out according to professional standards and regulatory and legal conditions, and that the firm, or the responsible partner issue reports are appropriate in the circumstances.
47. The firm shall, through its policies and procedures, seek to create conformity of quality in terms of engagement performance. This should often be achieved through paper, or soft manuals, software, or any form of standard documentation.

Topics to be covered in such materials should include the following:

- how to explain tasks to work teams to familiarize them understand the objectives of their engagement
- processes of compliance with applied work standards
- processes of work oversight, staff training and education
- methods of examining work that has been finished, substantive personal judgments made, and type of report produced
- appropriate documentation of completed work, timing, and level of examination conducted.
- Measures for upgrading policies and procedures

48. It is of the utmost importance that all members of the work team should be aware of the objectives of the engagement they undertake. For doing work with a team spirit and proper training is considered essential to help team members with less experience to grasp clearly objectives of their assignment.

49. Oversight includes the following:

- monitoring task progress
- considering skills and capabilities of the team members and other issues, such as: whether they have sufficient time to finish their work; if they are aware of instructions; and if work is carried out in accordance with planned approach for task performance.
- discussing essential issues that may occur in the process of performing the engagement, considering this significance and modifying planned approach in an appropriate manner

- deciding on matters that require consultation, or deep consideration on the part of the work team members with more experience during engagement performance.

50. Responsibilities for examination are determined in a specific manner, i.e. the team members, including the responsible partner, who have more experience, examine work done by members with less experience. Examiners study the following points:
- a) Has work been done in accordance with professional standards and regulatory and legal conditions?
  - b) Are there substantive issues that arose and need to be studied?
  - c) Have required consultations been sought? Were findings documented and implemented?
  - d) Has there been need for reviewing the nature, timing and quality of work done?
  - e) Have audit manuals been sufficient and appropriate enough to support the report?
  - f) Have objectives of engagement procedures been achieved?

### **Consultation**

51. The firm shall develop policies and procedures to provide it with an appropriate level of assurance that:
- a) appropriate consultation about difficult, or disputed issues, is provided
  - b) sufficient resources are available to facilitate proper consultation
  - c) document nature of the consultation and its scope
  - d) document results of consultation and their implementation
52. Consultation includes appropriate professional discussion with persons from inside and outside the firm with specialized experience to solve difficult or disputed issues.
53. Consultation uses appropriate research resources in addition to group expertise, and technical experience of the firm. In addition, it helps enhance quality and improve application of professional principles. The firm seeks to create a culture that considers consultation as a source of strength, and to encourage staff to request consultation on difficult and controversial issues.
54. Efficient consultation with other professionals requires that all related facts be submitted to those consulted so that they can give advice on technical or ethical issues, etc. In addition, only people with proper knowledge, seniority and experience inside the firm (or outside if possible) should be consulted regarding any substantial technical, ethical, etc., as well as appropriate documentation, and implementation of the recommendations.

55. The firm that needs external consultation for example, who has appropriate internal resources, may engage consultation services provided by
- a) other firms
  - b) professional and oversight entities
  - c) commercial entities that provide quality control services prior to entering into contracts regarding such services

The firm takes into consideration whether the external service provider is qualified enough for that purpose.

56. Persons seeking consultation and those being consulted shall agree on documenting consultation about difficult issues or disputes with other professionals. Documentation should be complete and detailed enough to enable understanding of
- a) subject of consultation
  - b) findings of the consultation including decisions made, grounds for such decisions and method of implementation

### **Disagreement in opinion**

57. The firm should develop policies and procedures to deal with and solve disagreement of opinion between the work team and those who have been engaged to provide consultation and disputes (if any) between the responsible partner and the engagement quality control examiner. Recommendations reached to be implemented should be documented.
58. Such procedures encourage identifying disagreements in opinion at an early stage, and provide general and clear guidelines regarding next steps to be taken. This requires documenting solving disagreements and implementing results reached. The report should not be issued until disagreement is solved.
59. The firm that engages the services of an external person who is appropriately qualified to examine quality control of engagements is aware that disagreement in opinion may arise. It shall develop procedures to solve such differences, such as seeking a second opinion from another practitioner, or professional or oversight entity.

### **Pre-report examination**

60. The firm should develop policies and procedures to perform appropriate tasks, requiring quality control examination of engagements to reach an objective assessment of important personal conclusions issued by the work team and findings reached during the drafting of the report. Such policies and procedures should

- a) Require pre-report examination of all audits of financial statements of the listed establishments.
- b) Develop criteria for assessment of all audits and limited examination of financial and historical information, and other assurance engagements and related services to identify whether task quality control examination should be done.
- c) Require pre-report examination of all engagements that meet the conditions developed according to item (b).

61. The firm's policies should require pre-report examination prior to issuance of the report.

62. Standards developed by the firm shall take into consideration the following when defining engagements (except in the case of auditing financial statements of listed establishments which should be examined prior to issuance of report):

- Nature of engagement. This includes how far the task is related to matters of public interest.
- identifying unusual circumstances, or risks involved in task or type of tasks

63. The firm should develop policies and procedures clarifying

- a) Nature, timing, and scope of pre-report examination
- b) Worthiness standards for pre-report examiners
- c) Documentation requirements prior to pre-report examination

### **Nature, timing and scope of pre-report examination**

64. Pre-report examination is usually related to discussion of examination of financial statements with the responsible partner or any other information related to the subject and report, particularly if the report is considered appropriate. In addition, it is related to examination of selected work papers related to personal and important conclusions made by the engagement team and the results they have reached. The level of examination depends on complexity of the engagement and possibility that the report may not be appropriate in the circumstances. Examination does not alleviate responsibilities of the liabilities of the responsible partner.

65. Pre-report examination of financial statements of listed establishments shall include study of the following:

- Assessment by work team for independence of the firm regarding specific task
- Essential risks identified during performance of the engagement and reactions to such risks
- Whether appropriate consultation regarding disagreements in opinion, difficult or disputed issues, and results of these consultations.

- Identifying importance of corrected/ non-corrected misstatements and settling the same during engagement performance.
- Issues that should be communicated to the client's management, persons in charge of governance therein, and other parties such as oversight entities (if need be).
- Decide whether the work papers selected for examination reflect work that has been done regarding substantive personal conclusions and support results that have been reached.
- Decide how far the report planned to be issued is appropriate

Pre-report examination may, except for audit of financial statements of listed establishments and based on circumstances, include some or all of these considerations.

66. The pre-report examiner shall conduct examination in a phased and timely manner during engagement performance so that substantive issues could be solved promptly and in a satisfactory manner prior to release of report.
67. If pre-report examiner gives recommendations that the responsible partner does not accept, and if the issue has not been solved in a manner satisfactory to the examiner, the report shall not be released until the issue is solved per the firm's procedures regarding addressing disagreements in opinion.

#### **Worthiness criteria for pre-report examiner**

68. The firm's policies and procedures should include hiring pre-report examiners and determine their worthiness on the basis of:
  - a) The technical qualifications required for performance of job, including necessary experience and validity
  - b) The extent to which it is possible to consult pre-report examiner regarding the engagement in question without compromising his objectivity.
69. The firm's policies and procedures related to technical qualifications of pre-report examiner should discuss technical and practical experience and eligibility for engagement. This should include technical and practical experience, enough and appropriate authority depending on circumstances. In addition, a pre-report examiner who examines financial statements of listed establishments is a person with enough experience and sufficient and appropriate experience and eligibility that qualify him to work as a responsible partner in the processes of auditing financial statements of listed establishments.
70. The firm's policies and procedures aim to maintain objectivity of the pre-report examiner. For example, a task quality control examiner:

- a) should not be selected by the responsible partner
- b) does not take decisions on behalf of the engagement team
- c) is not susceptible to any considerations that may compromise objectivity of the examination.

71. The responsible partners may consult a pre-report examiner during performance of engagement. Such consultation should not affect worthiness of the pre-report examiner during performance of his work. However, when the nature and degree of consultations become material, the task team and the examiner should take care to maintain objectivity of the examination. If that is not possible, another person from inside, or outside the firm with appropriate qualifications to play the role of the pre-report examiner, or the person who is being consulted regarding the engagement, should be appointed. The firm's policies should allow replacing pre-report person if he is not capable enough to perform an objective examination.
72. It is possible to contract a person from outside the firm who has appropriate qualifications when individual practitioners, or small offices, identify tasks that require pre-report examination. Alternatively, some individual practitioners, or small offices, may desire to engage other firms to facilitate pre-report examination. When the firm hires external persons with proper qualifications, it should observe conditions and guidelines set in items 68-71.

### **Pre-report documentation**

73. Policies and procedures related to pre-report should require that documentation include the following:
- a) The procedures required by the firm's policies regarding pre-report examination already performed.
  - b) Completion of pre-report examination before release of report
  - c) Examiner is not aware of any pending issues that may cause the examiner to think that personal substantive conclusions and results made by the task team are not appropriate.

### **Oversight**

74. The firm must develop policies and procedures to provide it with appropriate assurance that policies and procedures related to the quality control system are appropriate, sufficient, efficient, and observed in practice. Such policies and procedures should include study and assessment of the sustainability of the firm's system in quality control. It includes periodic examination of selected tasks already performed.
75. Objective of monitoring compliance with quality control policies and procedures is to evaluate

- a) Adherence to professional standards, and regulatory and legal conditions
- b) Appropriateness and efficient implementation of the quality control system
- c) Proper implementation of the firm's quality control policies and procedures to the effect that reports issued by the firm, or contracted partners, are appropriate in the circumstances.

76. The firm shall entrust the oversight process to a partner(s), or other persons with enough, sufficient experience and authority in the firm to undertake that responsibility. Efficient, specialized persons monitor the quality control system in the firm, its appropriateness and efficient operation.

77. Monitoring and evaluation sustainability of the control system includes several issues, such as:

- Analysis of new developments in professional standards, and regulatory and legal conditions, and how they reflect on the firm's policies and procedures as appropriate.
- Written acknowledgments regarding compliance with policies and procedures related to independence
- Ongoing professional development, including training
- Decisions related to acceptance and continuation of relations with client and specific engagements
- Determining corrective measures to be taken and the development to be introduced into the system. This should include providing the firm's education- and training-related policies and procedures with comments and feedback from staff.
- Communicating to relevant staff at the firm weaknesses identified in the system
- Monitoring is to be performed by appropriate staff at the firm until necessary amendments are done to quality control policies and procedures as soon as possible

78. A selected set of completed engagements are usually inspected regularly. Such engagements include one at least for each responsible partner during the examination cycle (usually not more than three years). The technique for organizing this cycle (including timing of selection of individual tasks) rely on factors including

- Size of the firm
- Number of offices and geographical distribution
- Results of previous oversight procedures
- Level of authority for staff and offices (for example, do branch offices have the authority to conduct inspection itself, or is the main office authorized to conduct it)
- Nature and intricacy of practices of the firm and organization
- Risks related to the firm's clients and some specific engagements

79. The inspection process includes selection of individual engagements. Some may be selected without notifying the task team beforehand. Examining engagements is conducted by persons who are not related to task performance or examining quality control at the firm.

The firm may, upon determining scope of inspection operations, take into consideration scope of external independent inspection program and take care to prevent the program from replacing the internal oversight program inside the firm.

80. Small offices and individual practitioners may wish to hire an external person with appropriate qualification, or another firm to inspect engagements and other oversight procedures. They may develop arrangements to divide resources with other entities to facilitate oversight activities.

81. The firm should assess the above deficiencies observed by the oversight process as it should determine whether

- a) cases which do not necessarily indicate that the quality control system at the firm is sufficient enough to provide it with appropriate assurance that make its comply with professional standards, regulatory and legal conditions, and that reports issued by the firm or responsible partners are appropriate in the circumstances; or
- b) system-related defects, or repetitive defects, or other substantive defects that require prompt corrective measures

82. The firm should notify its concerned partners, as well as appropriate persons, of defects resulting from the oversight process and recommendations to take appropriate corrective measure

83. The firm's assessment of defects should produce recommendations on one item or more of the following:

- a) Taking appropriate remedial action regarding a certain engagement or staff member
- b) Keeping training and professional development officials posted
- c) Introducing necessary changes in the quality control policies and procedures
- d) Taking a disciplinary action against persons who do not comply with policies and procedures, especially if performed in a frequent manner.

84. If results of the oversight procedures indicate that the report may not be appropriate, or that some procedures have not been observed during engagement performance, the firm must determine the other appropriate measure according to related professional standards, and regulatory and legal conditions. It should also consider seeking legal counsel.

85. The firm should, at least on annual basis, communicate findings of the monitoring of quality control system to responsible partners and other relevant persons inside the firm including its CEO or its board of partners. This information should enable the firm and these persons to take prompt and appropriate measures if need be according to their specific roles and responsibilities. Reported information should include the following:
- a) Description of oversight procedures adopted
  - b) Findings of the oversight procedures
  - c) Description of regular, or repetitive system-related defects, or other substantive deficiencies, procedures implemented to address or modify such defects as related
86. Notifying persons, other than responsible partners of deficiencies that have been identified as usual, should not include revealing title of specific engagements unless this clarification is necessary to enable these persons (other than responsible partners) to enable them perform their engagements properly.
87. Some firms work as a member firm, and may, as part of conformity, implement some, or whole of the oversight procedures at the level of the firm as such firms work according to oversight policies and procedures aiming at compliance with Egyptian quality control standards. These firms depend on such oversight system by way of:
- a) Communicating, at least annually, to relevant persons in these branches of the overall scope and findings of the oversight process.
  - b) Communicating to relevant persons promptly inside the firm and its related branches of any deficiencies in the quality control system until necessary measures are taken
  - c) Reliance of responsible partners in the firm and its branches on findings of the implemented oversight process unless the firm's system says otherwise
88. Appropriate documentation of the oversight process:
- a) Starting implementation of the oversight procedures including selection of completed engagements to be examined.
  - b) Assessment to note
    - (1) How far professional standards and regulatory and legal conditions are adhered to.
    - (2) If the quality control system has been properly developed and implemented efficiently
    - (3) If quality control policies and procedures in the firm have been applied so that reports issued by the firm or contracted partners are appropriate in the circumstances.
  - c) Identifying deficiencies, assess their impacts, and develop basis for determining whether there is need for another measure, and what this measure is.

## **Complaints and Claims**

89. The firm should develop policies and procedures to provide it with an appropriate degree of assurance that it is dealing properly with
- a) Complaints and claims that work implemented by the firm does not comply with professional standards, and regulatory and legal conditions
  - b) Claims of non-compliance with the firm's quality control system
90. Complaints and claims may, except for those that lack seriousness or credibility, arise from inside or outside the firm. They can be filed by staff at the firm, the client, or other parties. They can also be received by members of the task team, or other staff members at the firm.
91. The firm shall, as part of the process, establish specific and clear channels for the staff at the firm to take about their concerns so that they can file their complaints without fear.
92. The firm shall investigate such complaints and claims in accordance with the established polices and procedures. The investigation shall be supervised by a partner with enough and appropriate experience and authority inside the firm. He should not have any thing to do with the engagement in question. Process also includes seeking legal counsel if necessary. Small offices and individual practitioners may engage the services of an external and qualified person or another firm to conduct the investigation. Complaints, claims, and reactions should be documented.
93. The firm shall take the proper measure as set forth in item (83) if the findings of the investigation point out deficiencies in the development or implementation of the quality control policies and procedures in the firm, or non-compliance of a person(s) with quality control system in the firm.

## **Documentation**

94. The firm should develop policies and procedure that require appropriate documentation to provide evidence that all its quality control elements are operational
95. It is up to the firm to decide on the manner of documenting such issues. For example, large offices may use databases to document matters such as certificates of independence, performance evaluation, and findings of oversight of examination. Smaller offices may apply unofficial methods such as manual notes, check lists and forms.

96. Factors to be taken into consideration when determining format and content of documentation as proof that all quality control elements are operational include the following:

- Size of the firm and number of offices.
- Scope of authority per staff and offices.
- Nature and complexity of practices and organization of the firm.

97. The firm shall keep the documents for a period of time enough to allow those performing the oversight to assess compliance of the firm with quality control system, or laws and regulations, or for a longer period if necessary.