

Risk Management Guidelines for Members in Public Practice

ISSUED BY THE MALTA INSTITUTE OF ACCOUNTANTS

NOTICE TO READERS

These Guidelines present recommendations to all warrant holders for the establishment and maintenance of a system of quality control as a means of securing an effective risk management strategy for their practice.

These Guidelines are based upon and uphold the fundamental principles underlying a threats - safeguards approach towards managing risk as advocated by the IFAC Code of Ethics.

The suggested policies and procedures presented herein are illustrative only and are provided through examples of three hypothetical practices and their systems of quality control.

These Guidelines are not intended to be rigidly applied without due consideration to such factors as the constitution of a firm's client portfolio and the degree of its exposure to risk. Firms and individual practitioners are encouraged to consider elements of these examples in designing and maintaining a quality control system that is appropriate for their practice.

Whilst the need to set up and maintain a proper quality control system is most essential in relation to audit and assurance engagements, the need also applies to other service line engagements. Hence, when reference is made in these Guidelines to audit and/or assurance engagements, this should not be construed to be to the exclusion of other service line engagements from quality control requirements and considerations.

Risk Management Committee

Paul Mercieca (Chairman)
Jackie Briffa
George Farrugia
Mario Galea
Frederick Mifsud Bonnici
Anthony Zarb

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1. Introduction

1.01 The Malta Institute of Accountants' Code of Ethics, which is based on the recommendations of the International Federation of Accountants, establishes the fundamental principles of professional ethics for warrant holders and upholds a conceptual framework for applying those principles. In recognition of the fact that there will be circumstances in which warrant holders operate that may give rise to specific threats to compliance with these principles, the conceptual framework approach requires warrant holders to identify and evaluate such threats and then respond to them either by refraining from acting or by applying safeguards in the form of policies and procedures which are intended either to eliminate or mitigate the identified risks to acceptable levels.

The IFAC Code lists three broad categories of safeguards intended to eliminate or mitigate such threats:

- 1) safeguards created by the profession, legislation or regulation;
- 2) safeguards within the assurance client; and
- 3) safeguards within the practice's own systems and controls.

Of particular relevance to these Guidelines is the third category of safeguards i.e. safeguards within the practice's own systems and controls. These Guidelines are essentially concerned with the implementation and monitoring of a quality control system for practices. They provide an illustrative detailed set of safeguards for three hypothetical practices with characteristics intended to be representative of all practices in Malta and client portfolios typified by varying degrees of exposure to risk.

2. The Elements of a Practice's Quality Control System

- 2.01** A practice should have a system of quality control for its practice and should take measures that are essential to the effective implementation and maintenance of the system. A system of quality control is broadly defined as a process to provide the practice with reasonable assurance that its personnel comply with applicable professional standards and the practice's standards of quality.
- 2.02** The nature, extent, and formality of a practice's quality control policies and procedures depend on a number of factors, such as:
- its size,
 - the degree of authority allowed to its personnel,
 - the knowledge and experience of its personnel,
 - the nature and complexity of its practice, and
 - appropriate cost-benefit considerations.
- 2.03** A practice should establish a system of quality control that includes policies and procedures related to each of the five elements of quality control, which are as follows:
1. *Independence, Ethics, Integrity and Objectivity*
 2. *Personnel Management*
 3. *Acceptance and Continuance of Clients and Engagements*
 4. *Engagement Performance*
 5. *Monitoring*
- 2.04** The elements of quality control are interrelated. For example, the maintenance of *Ethics, Integrity, Objectivity*, and, where required, *Independence* requires a continuing assessment of client relationships that affect policies and procedures for the acceptance and continuance of clients and engagements. Similarly, the element of *Personnel Management* encompasses criteria for professional development, recruitment, advancement, and assignment of the practice's personnel to engagements, which affect policies and procedures developed to meet the objectives of the quality control element of *Engagement Performance*. Similarly, policies and procedures for the quality control element of *Monitoring* evaluate whether the policies and procedures that are required by the practice related to each of the other four elements of quality control are suitably designed and are being effectively applied.
- 2.05** When a firm merges, acquires, sells or otherwise changes a portion of its practice, the surviving practice should evaluate and, as necessary, revise, implement, and maintain quality control policies and procedures appropriate in light of the changed circumstances.

Independence, Ethics, Integrity, and Objectivity

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- 2.06** The objective of the *Independence, Ethics, Integrity, and Objectivity* element of a system of quality control is to provide the practice with reasonable assurance that the practice, its partners and personnel:
- maintain independence (in fact and in appearance) in all required circumstances,
 - perform all professional responsibilities with integrity,
 - engage in ethical behaviour, and
 - maintain objectivity in discharging professional responsibilities.
- 2.07** This objective ordinarily would be satisfied by establishing and maintaining policies such as -
- Communicating policies and procedures relating to independence, ethics, integrity, and objectivity to the practice's partners and personnel.
 - Requiring that the practice, its partners and personnel adhere to applicable independence, ethical, integrity, and objectivity requirements.
 - Confirming the independence of another practice engaged to perform part (or parts) of an engagement, or when acting as principal auditor.

Personnel Management

- 2.08** The objective of the *Personnel Management* element of a system of quality control is to provide the practice with reasonable assurance that all personnel have the proficiency to perform their assigned responsibilities. Attributes or qualities that enhance the proficiency of personnel who perform, supervise, or review work include integrity, objectivity, intelligence, judgment, competence, experience, and motivation.
- 2.09** This objective ordinarily would be satisfied by establishing and maintaining policies such as -
- Recruiting personnel who possess the appropriate characteristics to enable them to perform competently.
 - Assigning personnel who have the degree of technical training and proficiency required in the circumstances. In assigning personnel, the nature and extent of supervision to be provided should be considered. Generally, the more qualified and experienced the personnel assigned to a particular engagement, the less direct supervision is needed. Conversely, the less qualified and less experienced the personnel assigned, the more direct supervision generally is needed.
 - Having personnel participate in general and industry-specific continuing professional education and professional development activities that enable them to fulfil responsibilities assigned, and satisfy applicable continuing professional

education requirements.

- Selecting for advancement only those who have the qualifications necessary for fulfilment of the responsibilities they will be called on to assume.

Acceptance and Continuance of Clients and Engagements

2.10 The objective of the *Acceptance and Continuance of Clients and Engagements* element of a system of quality control is to establish criteria for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. Such policies and procedures should provide the practice with reasonable assurance that

- a. the likelihood of association with a client whose management lacks integrity and/or who may be engaged in money laundering or other illegal activities is minimized,
- b. the practice undertakes only those engagements that can be completed with professional competence, that do not impair the independence of the practice and that do not present unacceptable conflicts of interest,
- c. the risks associated with providing professional services in particular circumstances are appropriately considered and
- d. an understanding is reached with the client regarding the services to be performed.

The practice should implement prevention of money laundering measures as required by law as an integral part of its client engagement and acceptance procedures.

2.11 These objectives ordinarily would be satisfied, both with respect to the initial period for which the practice is performing its service and for subsequent periods, by establishing and maintaining policies such as -

- Evaluating factors that have a bearing on management's integrity.
- Evaluating whether the engagement the practice will perform can be completed with professional competence and, accordingly, undertaking only those engagements that can be completed with professional competence; and appropriately considering the risk associated with providing professional services in particular circumstances.
- Obtaining an understanding with the client regarding the services to be performed.

Engagement Performance

2.12 The objective of the *Engagement Performance* element of a system of quality control is to provide the practice with reasonable assurance that the work performed by engagement personnel meets the applicable professional standards, regulatory requirements, and the practice's standards of quality. Policies and procedures for engagement performance encompass all phases of the design and execution of the engagement. To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting,

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and communicating the results of each engagement. Policies and procedures should also provide that personnel refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the practice, when appropriate.

2.13 This objective ordinarily would be satisfied by establishing and maintaining policies such as -

- Requiring that all engagements be planned to meet professional, regulatory, and the practice's requirements.
- Requiring that the work performed and the reports and other communications issued meet professional, regulatory, and the practice's requirements.
- Identifying areas and specialised situations where consultation is necessary and requiring personnel to refer to authoritative literature or other sources or consult, on a timely basis, with individuals within or outside the practice, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

Monitoring

2.14 The objective of the *Monitoring* element of a system of quality control is to provide the practice with reasonable assurance that the policies and procedures relating to the other elements of quality control are suitably designed and being effectively applied. Monitoring is an ongoing consideration and evaluation process.

2.15 This objective ordinarily would be satisfied by establishing and maintaining policies for considering and evaluating, on an ongoing basis -

- The relevance and adequacy of the practice's quality control policies and procedures.
- The appropriateness of the practice's guidance materials and any practice aids.
- The effectiveness of professional development activities.
- Compliance with the practice's policies and procedures.

Illustrative Examples

2.16. The remainder of these Guidelines provides illustrative examples of the types of policies a practice should consider for each of the elements of quality control. Each chapter provides examples of procedures that a practice might consider in implementing and maintaining such policies. The specific policies and procedures used by a practice would not necessarily include all those described or be limited to those illustrated. Most practices will find it appropriate to communicate their policies and procedures in writing. These examples are based on the assumption that each practice's quality control policies and procedures are in writing and distributed to all personnel. The illustrative examples are provided through three hypothetical practices - *Firm 1*, *Firm 2* and *Sole Practitioner* - with the following characteristics -

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- ❑ *Firm 1* is representative of a large practice in Malta. It would typically have 1 large office comprising of more than 8 partners, more than 80 professional staff and a portfolio of international and local clients. Its portfolio includes public interest and regulated entities. A number of professional staff has developed a specialised knowledge and proficiency in a number of non-audit attest services.
- ❑ *Firm 2* is representative of a practice of less than 8 partners and less than 80 professionals. Its portfolio comprises mainly of small businesses but also includes a few medium-sized businesses some of which are regulated and public interest entities.
- ❑ Sole practitioner employs no full time professional staff but occasionally hires part time professional staff for ad hoc assignments. The practice consists principally of accounting and audit services and the occasional non-audit attest service.

3. Firm 1's System of Quality Control

3.01 This chapter describes how *Firm 1* implements each element of quality control for its accounting and auditing practice. Firm 1 is representative of a large practice in Malta, having 1 large office comprising of more than 8 partners, more than 80 professional staff and a portfolio of international and local clients. Its portfolio includes public interest and regulated companies. A number of professional staff has developed a specialised knowledge and proficiency in a number of non-audit attest services. Firm 1 serves clients in different industries.

Independence, Ethics, Integrity, and Objectivity

3.02 The objective of the *Independence, Ethics, Integrity, and Objectivity* element of a system of quality control is to provide the firm with reasonable assurance that the practice as a whole, its partners and personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional responsibilities with integrity, engage in ethical behaviour and maintain objectivity in discharging professional responsibilities.

3.03 *Firm 1* satisfies this objective by establishing and maintaining the following policies and procedures.

3.04 Policy 1

The firm, its partners and personnel will adhere to applicable independence, ethical, integrity, and objectivity requirements. These requirements include law and regulations, interpretations, and rulings of the Malta Institute of Accountants, the Accountancy Board, the Malta Financial Services Authority and other country-specific regulatory bodies where applicable.

3.05 *Firm 1* implements this policy by -

- a. Developing and maintaining a Professional Practice Manual that contains policies and procedures relating to independence, ethics, integrity, and objectivity. Such policies and procedures contain the firm's interpretations of professional and regulatory requirements, and guidance for identifying and resolving potential issues or situations.
- b. Designating a partner to assume all responsibility for providing guidance, answering questions, and resolving matters and determining the circumstances that might require consultation with sources outside the firm.
- c. Identifying circumstances where documentation of the resolution of matters is appropriate.
- d. Developing and maintaining policies and procedures ensuring the financial independence of the firm, its partners and other professional staff.
- e. Obtaining written representations from personnel, shortly after recruitment and on an annual basis, stating whether they are familiar with and are in compliance with

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professional standards and the firm's policies and procedures regarding independence, ethics, integrity, and objectivity. The risk management partner is responsible for obtaining such representations and reviewing compliance files for completeness and for resolving reported exceptions.

- f. Periodically reviewing unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence.

3.06 Policy 2

Personnel will be familiar with policies and procedures relating to independence, ethics, integrity, and objectivity.

3.07 *Firm 1* implements this policy by -

- a. Providing each of its personnel with access to databases containing professional and regulatory literature and advising them that they are expected to be familiar with that literature.
- b. Emphasizing the concepts of independence, ethics, integrity and objectivity in its professional development meetings, in the acceptance and continuance of clients and engagements, and in the performance of engagements, including discussing the types of non-attest services that could impact independence.
- c. Informing personnel on a timely basis of those entities to which independence policies apply, by -
 - (1) Preparing and maintaining lists of entities to which independence policies apply.
 - (2) Making the lists available to personnel who need them to determine their independence (including personnel new to the firm or to an office, and certain former partners).
 - (3) Making personnel aware that these lists are continually subject to change and should therefore be accessed from time to time.

3.08 Policy 3

Confirm the independence of another firm performing parts of an engagement, or when we act as principal auditor.

3.09 *Firm 1* implements this policy by -

- a. Describing in its Professional Practice Manual the form, content, and frequency of independence representations that are to be obtained.
- b. Requiring that such representations be documented.

Personnel Management

3.10. The objective of the *Personnel Management* element of a system of quality control is to provide the firm with reasonable assurance that all personnel have the proficiency to perform their assigned responsibilities. Attributes or qualities that enhance the proficiency of personnel who perform, supervise, or review work include integrity, objectivity, intelligence, judgment, competence, experience, and motivation.

3.11 *Firm 1* satisfies this objective by establishing and maintaining the following policies and procedures.

3.12 Policy 1

Personnel who are hired will possess the appropriate characteristics to enable them to perform competently.

3.13 *Firm 1* implements this policy by—

- a. Designating a partner to be responsible for evaluating the firm's overall personnel needs and establishing recruitment objectives based on factors such as clientele, anticipated growth, personnel turnover, and individual advancement.
- b. Developing and maintaining personnel policies and procedures that identify attributes, achievements, and experiences desired in entry-level and experienced personnel.
- c. Establishing criteria to evaluate personal characteristics such as integrity, competence, and motivation.
- d. Setting guidelines as to additional procedures that are necessary when recruiting experienced personnel, such as performing background checks and inquiring about any outstanding regulatory actions.
- e. Identifying sources of potential recruits and coordinating the recruitment process.
- f. Summarizing and evaluating the results of the recruitment process for each candidate and providing final approval for recruitment.

3.14 Policy 2

The firm will assign personnel on the basis of the degree of technical training and proficiency required in the circumstances and the nature and extent of supervision to be provided.

3.15 *Firm 1* implements this policy by -

- (a) Designating an appropriate person to be responsible for assigning personnel to engagements based on such factors as -

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- Engagement size and complexity.
 - Specialised experience or expertise required.
 - Personnel availability and involvement of supervisory personnel.
 - Timing of the work to be performed.
 - Continuity and rotation of personnel.
 - Opportunities for on-the-job training.
 - Situations where independence or objectivity concerns exist.
- (b) Designating the risk management partner or a senior partner as the person responsible for approval of the partner assignments on high-risk engagements.

3.16 Policy 3

Personnel will participate in continuing professional education and professional development activities that enable them to satisfy responsibilities assigned and fulfil applicable continuing professional education requirements of the Malta Institute of Accountants and the Accountancy Board.

3.17. Firm 1 implements this policy by –

- a. Designating one partner responsible for developing the firm’s requirements and programme materials for professional development. These responsibilities include –
- Setting guidelines for participation by personnel in professional development programmes and considering the requirements of the Accountancy Board, the Malta Institute of Accountants and any other regulatory bodies in establishing the firm’s CPE requirements.
 - Maintaining appropriate documentation evidencing that personnel have met the professional educational requirements of the firm, the Malta Institute of Accountants, the Accountancy Board and any other regulatory bodies.
 - Providing an orientation programme and training for newly employed personnel to inform them of their professional responsibilities and the firm’s policies.
 - Preparing publications and programmes designed to inform personnel of their responsibilities and opportunities.
 - Developing in-house staff training programmes that focus on general and industry-specific accounting and auditing subject matter, including audits of

financial institutions.

- b. Assigning responsibility to a partner to maintain a professional development programme that provides that office personnel or those serving clients participate in professional development activities in accordance with firm guidelines and in subjects that are relevant to their responsibilities.
- c. Communicating and distributing to personnel changes in accounting, auditing, and independence, integrity, and objectivity requirements and the firm's guidance with respect to them.
- d. Encouraging participation in other professional development activities for personnel at each level within the firm, such as participation in external professional development programmes, membership in professional organisations, serving on professional committees, and writing for professional publications.

3.18 Policy 4

Personnel selected for advancement will have the qualifications necessary to fulfil the responsibilities they will be called on to assume.

3.19 *Firm 1* implements this policy by -

- a. Appointing a Director of Human Resources to identify and communicate, in the firm's Professional Practice Manual, the qualifications necessary to fulfil responsibilities at each professional level within the firm by –
 - (1) Establishing the criteria for evaluating personnel at each professional level and for advancement to the next higher level of responsibility.
 - (2) Developing evaluation forms for each professional staff classification.
- b. Assigning responsibility to one of its partners for making advancement and termination decisions for staff and recommendations for manager- and partner-level advancements and terminations. Such responsibilities should include –
 - (1) Identifying responsibilities and requirements for evaluations at each level indicating who will prepare the evaluations and when they will be prepared.
 - (2) Reviewing evaluations with the individual being evaluated on a timely basis.
- c. Counselling personnel regarding their progress and career opportunities by -
 - (1) Annually summarizing and reviewing with personnel the evaluation of their performance, including an assessment of their progress within the firm. Considerations should include performance, future objectives of the firm and the individual, assignment preferences, and career opportunities.
 - (2) Evaluating partners on an annual basis by means of counselling, quality

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assurance evaluation, or self-appraisal, as appropriate, regarding whether they continue to have the qualifications to fulfil their responsibilities or to assume added responsibilities.

Acceptance and Continuance of Clients and Engagements

3.20 The objective of the *Acceptance and Continuance of Clients and Engagements* element of a system of quality control is to establish criteria for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. Such policies and procedures should provide the firm with reasonable assurance that

- a. the likelihood of association with a client whose management lacks integrity and/or who may be engaged in money laundering or other illegal activities is minimized,
- b. the firm undertakes only those engagements that can be completed with professional competence, that do not impair the independence of the practice and that do not present unacceptable conflicts of interest,
- c. the risks associated with providing professional services in particular circumstances are appropriately considered, and
- d. an understanding with the client regarding the services to be performed is reached.

The firm should implement prevention of money laundering measures as required by law as an integral part of its client engagement and acceptance procedures.

3.21 *Firm 1* satisfies this objective, both with respect to the initial period for which the firm is performing its service and for subsequent periods, by establishing and maintaining the following policies and procedures.

3.22 Policy 1

The firm will evaluate factors that have a bearing on management's integrity.

3.23 *Firm 1* implements this policy by -

- a. Developing and maintaining a Professional Practice Manual that contains policies and procedures relating to the acceptance of prospective clients and the continuance of current clients. Such policies and procedures state that the firm's clients should not present undue risks to the firm, including damage to the firm's reputation and address the importance of meeting the firm's obligations under the Prevention of Money Laundering Regulations, 2003.
- b. Advising personnel that they are expected to be familiar with the firm's policies and procedures for acceptance and continuance of clients.
- c. Obtaining and evaluating information before accepting or continuing a client, as applicable:
 - (1) Available information regarding the client and its operations from sources

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such as annual reports, management accounts, income tax returns, internet websites, MFSA, credit-rating agencies.

- (2) The nature and purpose of the services to be provided by making inquiries of client management.
 - (3) Information regarding the client and its management and principals that may have a bearing on evaluating the client by making inquiries of third parties such as bankers, legal advisors, investment bankers, underwriters, and other members of the financial or business community who may have appropriate knowledge. Inquiries might also be made about management's attitude toward compliance with outside regulatory or legislative requirements and the presence of reportable conditions, especially those that management is unwilling to correct. In certain circumstances, background checks by investigative firms are required.
- d.* Communicating with the predecessor accountant when required. This communication also includes inquiries regarding the nature of any disagreements and/or any matters that such accountant feels should be brought to your attention.
 - e.* Evaluating the information obtained regarding management's integrity and documenting the results of the client engagement risk assessment.

3.24 Policy 2

The firm will evaluate whether the engagement can be completed with professional competence and accordingly undertake only those engagements that can be completed with professional competence, that do not impair the independence of the practice and that do not present unacceptable conflicts of interest. The firm will appropriately consider the risk associated with providing professional services in particular circumstances.

3.25 Firm 1 implements this policy by -

- a. Evaluating whether the firm has obtained or can reasonably expect to obtain the knowledge and expertise necessary to enable it to perform the engagement, for example, through use of external resources.
- b. Specifying conditions that require evaluation of a specific client or engagement, obtaining relevant information to determine whether the relationship should be continued, and establishing a time period for evaluations to be made (for example, continuance decisions should be made at least annually). Conditions include the following -
 - Significant changes in the client, for example, a major change in ownership, senior personnel, directors, advisors, the nature of its business, or its financial stability.

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- Changes in the nature or scope of the engagement, including requests for additional services.
 - Changes in the strategic focus or composition of the firm, for example, a decision to discontinue services to clients in a particular industry.
 - The existence of conditions that would have caused the firm to reject the engagement had such conditions existed at the time of the initial acceptance. Depending upon the services that may be provided, these conditions may include unreliable processes for making accounting estimates, questionable estimates by management, questions regarding the entity's ability to continue as a going concern, or other factors that may increase the risk of being associated with the client.
 - Late payment of fees, which may also affect the firm's independence.
 - Engagements for entities operating in highly specialised or regulated industries, including financial institutions, governmental entities, and betting companies.
 - Engagements for entities in the development stage.
- c. Evaluating the information obtained regarding the acceptance or continuance of the *client**.
- (1) All information obtained about the client is to be evaluated by the engagement partner and a recommendation is made regarding whether the *client* should be accepted or continued.
 - (2) The engagement partner completes a client acceptance form and submits it to a second partner for evaluation and approval.
 - (3) The engagement partner signs off the planning programme noting client continuance, and a form documenting client continuance is completed if conditions identified above (paragraph 3.25b) exist.
 - (4) In certain defined circumstances, such as acceptance of new public interest and high- risk entity clients, documented acceptance requires the approval of the risk management partner.
- d. Evaluating the information obtained regarding the acceptance or continuance of the *engagement**.
- (1) The engagement partner will sufficiently discuss the nature and scope of the proposed engagement with the client, evaluate the information obtained and make a recommendation regarding whether the engagement should be accepted or continued.
 - (2) The engagement partner completes an engagement acceptance form and

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submits it to a second partner for evaluation and approval.

- (3) In the case of repeat engagements, the engagement partner signs off the planning programme noting engagement continuance, and a form documenting continuance is completed if conditions identified above (paragraph 3.25b) exist.
- (4) In certain defined circumstances, such as new public interest entity and high-risk engagements, documented acceptance requires the approval of the risk management partner.

** Note the distinction between 1) client acceptance procedures, which are required irrespective of the nature of the engagement performed for that client and 2) engagement acceptance procedures, which are required to be performed prior to commencing new engagements or repeated services for any given client.*

3.26 Policy 3

The firm will obtain an understanding with the client regarding the services to be performed.

- 3.27 *Firm 1* implements this policy by requiring that all understandings with the client be in writing by obtaining an engagement letter for all engagements, thus minimizing the risk of misunderstandings regarding the nature, scope, and limitations of the services to be performed.

Engagement Performance

- 3.28 The objective of the *Engagement Performance* element of a system of quality control is to provide the firm with reasonable assurance that the work performed by engagement personnel meets the applicable professional standards, regulatory requirements, and the firm's standards of quality. Policies and procedures for engagement performance encompass all phases of the design and execution of the engagement. To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement. Policies and procedures should also provide that personnel refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the firm, when appropriate (for example when dealing with complex, unusual or unfamiliar issues).

- 3.29 *Firm 1* satisfies this objective by establishing and maintaining the following policies and procedures.

3.30 Policy 1

Planning for engagements which meet professional, regulatory, and the firm's requirements.

- 3.31 *Firm 1* implements this policy by developing, maintaining, and providing personnel with the firm's Professional Practice Manual, which prescribes the factors to be considered in

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the planning process by the engagement team and the extent of documentation of the considerations which may vary depending on the size and complexity of the engagement. Planning considerations include -

- Assigning to the engagement partner or another qualified individual the responsibility for planning an engagement and assigning responsibilities to appropriate personnel during the planning phase.
- Developing or updating background information.
- Requiring planning documentation that may include -
 - ❑ Development of a proposed work programme, tailored to the specific engagement.
 - ❑ Staffing requirements and the need for specialised knowledge, which may have to be obtained from external sources.
 - ❑ Considering economic conditions affecting the client or its industry and their potential impacts on the conduct of the engagement.
 - ❑ Considering risks and how they may affect the procedures to be performed.
 - ❑ Preparing a budget that allocates a sufficient amount of time so the engagement will be performed in accordance with professional standards and the firm's quality control policies and procedures.

3.32 Policy 2

The engagement will be performed, supervised, reviewed, documented, and communicated in accordance with the requirements of professional standards, regulatory authorities, and the firm.

3.33 Firm 1 implements this policy by -

- a. Providing personnel with the firm's Professional Practice Manual, which
 - (1) Prescribes the form and content of working papers, including firm-generated forms, checklists, and questionnaires that are to be used in the performance of engagements, the form in which instructions are given, and the extent to which work is reviewed and documented.
 - (2) Specifies the extent of overall engagement review at all professional levels so that the client deliverables meet professional and firm presentation and disclosure standards.
- b. Assigning responsibility for the review of all reports, financial statements, and working papers to a reviewer in accordance with procedures outlined in the firm's manual to obtain reasonable assurance that –

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- (1) The nature, timing, and extent of procedures performed are consistent with risk assessments made and the approach described in the planning documentation and that exceptions are appropriately investigated. The appropriateness of planned procedures should be reconsidered when significant changes in risk factors occur or are identified between the planning phase of the engagement and the execution of substantive procedures.
 - (2) Firm-prescribed forms, checklists, and questionnaires, tailored as appropriate, are used in the performance of the engagement and reporting on it.
- c. Requiring a second review of the report, financial statements, and selected working papers by a partner or manager for all public interest and other high risk engagements.
- d. Adhering to guidelines set up by the firm regarding the review of working papers, financial statements, and for documentation of the review process:
- (1) All reviewers are to have appropriate experience, competence and responsibility.
 - (2) All work performed and the reports and financial statements issued are to be complete and comply with professional standards and firm policy.
 - (3) Appropriate documentation is required on all engagements evidencing review of working papers, financial statements, and reports. Necessary documentation includes completion of the firm's review and approval documentation.
- e. Requiring that differences of professional judgment within an engagement team or with consultants be resolved with the assistance of the office's risk management partner. The resolution of the differences must be appropriately documented. If a member of the team continues to disagree with the resolution, he/ she may disassociate himself / herself from the resolution of the matter and will be offered the opportunity to document that a disagreement still exists.

3.34 Policy 3

The firm will identify areas and specialised situations where consultation is required and will require personnel to refer to authoritative literature and practice aids and to consult, on a timely basis, with individuals within or outside the firm when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

3.35. Firm 1 implements this policy by –

- a. Providing personnel with the firm's Professional Practice Manual, which specifies the firm's consultation policies and procedures. Areas or specialised situations that may require consultation include -

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- Application of newly issued technical pronouncements.
 - Industries with special accounting, auditing, or reporting requirements.
 - Emerging practice problems.
 - Choices among IFRS upon initial adoption or when an accounting change is made.
 - Reissuing of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued.
 - Filing requirements of regulatory agencies.
 - Meetings with the Malta Financial Services Authority and other regulators, at which the firm is to be called on to support the application of accounting principles which have been questioned.
- b. Designating individuals within the firm as consultants in certain areas. Personnel are to consult with the appropriate individual when issues arise, as specified in the firm's manuals. When differences arise between the engagement partner and the consultant, the matter is resolved by the risk management partner.
- c. Maintaining or providing access to an adequate and up-to-date reference library, which includes materials related to specific industries and regulatory requirements.
- d. Requiring that documentation of consultation include all relevant facts and circumstances, reference to professional literature used in the determination, the conclusions reached, and signatures of the engagement partner and consultant. This documentation is to be retained in the engagement working papers.

Monitoring

- 3.36.** The objective of the *Monitoring* element of a system of quality control is to provide the firm with reasonable assurance that the policies and procedures relating to the other elements of quality control are suitably designed and being effectively applied. Monitoring is an ongoing consideration and evaluation process.
- 3.37** *Firm 1* satisfies this objective by establishing and maintaining the following policies and procedures.
- 3.38** **Policy 1**
- The firm will consider and evaluate, on an ongoing basis, the relevance and adequacy of its quality control policies and procedures.**
- 3.39** *Firm 1* implements this policy by designating a partner or partners to be responsible for

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risk management and quality assurance, including –

- a. Assuring that the firm’s quality control policies and procedures and its audit methodology remain relevant and adequate. Factors to be considered include –
 - Mergers and divestitures of portions of the practice.
 - Changes in professional standards or other regulatory requirements applicable to the firm’s practice.
 - Results of inspections and quality assurance reviews.
 - Any litigation, adverse publicity and regulatory enforcement actions against the firm.
 - The impact that changes in technology may have on clients’ methods of doing business.
 - Changes in clients’ industries that impact their operations.
 - Changes in applicable Professional Institute membership requirements.
- b. Determining whether personnel have been appropriately informed of their responsibilities for maintaining the firm’s standards of quality in performing their duties.
- c. Identifying the need to –
 - (1) Revise policies and procedures related to the other elements of quality control because they are ineffective or inappropriately designed.
 - (2) Improve compliance with firm policies and procedures that are related to the other elements of quality control.

3.40 Policy 2

The firm will consider and evaluate, on an ongoing basis, the appropriateness of its guidance materials and any practice aids.

3.41 *Firm 1* implements this policy by -

- a. Reviewing and updating firm practice aids, such as audit programmes, forms, and checklists, based on the issuance of new professional pronouncements.
- b. Issuing guidance regarding new professional standards, regulatory requirements, and related changes to firm policy.
- c. Soliciting comments from partners and managers regarding the effectiveness of

practice aids and tools.

3.42 Policy 3

The firm will consider and evaluate, on an ongoing basis, the effectiveness of professional development programmes.

3.43 *Firm 1* implements this policy by -

- a. Designating a partner or qualified individual to review the summary of evaluations of training programmes to determine whether the professional development programmes are achieving their objectives.
- b. Designating a partner or qualified individual to review summaries of CPE records for the firm's professional staff to determine that the firm has established a means of tracking each professional's compliance with the requirements of the firm and the Malta Institute of Accountants and the Accountancy Board.
- c. Interviewing selected professional personnel regarding the effectiveness of training programmes.
- d. Considering the results of the firm's inspection procedures in connection with the effectiveness of the firm's professional development programme.
- e. Ascertaining whether inquiries received by individuals consulted within the firm indicate the need for additional CPE programmes.

3.44 Policy 4

The firm will consider and evaluate, on an ongoing basis, compliance with its policies and procedures.

3.45 *Firm 1* implements this policy by making its risk management partner responsible for the preparation of checklists and guidance materials to be used in performing monitoring and inspection procedures. These procedures include -

- Developing and coordinating the firm's inspection programme to achieve feedback about the effectiveness of the firm's policies and procedures.
- Developing a plan for an appropriate test of compliance with the firm's policies and procedures on a sample of engagements.
- Reviewing the resolution of matters reported by professional personnel on independence circularisation forms to determine that matters have been appropriately considered and resolved.
- Interviewing professional personnel to obtain information regarding operating procedures and to determine whether personnel are knowledgeable of firm policies and procedures and whether they are being effectively communicated.

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- Reviewing the following documentation to determine compliance with firm policies and procedures:
 - a. Personnel evaluations, including documentation of recruitment and advancement decisions
 - b. Documentation of client/engagement acceptance and continuance decisions
 - c. Participants' evaluations of training programmes
 - d. Professional development records of professional personnel
 - e. Correspondence regarding the resolution of independence matters
- Reviewing a cross-section of engagements using the following criteria for selection:
 - a. All partners and key management personnel
 - b. Significant specialised industries with emphasis given to high-risk industries
 - c. First-year engagements
 - d. Level of service performed (that is, audit, review, compilation, and agreed-upon procedures)
 - e. Level of attestation services performed (that is, examination, review, and agreed-upon procedures)
 - f. Engagements for Public Interest Entities
- Summarizing findings resulting from the inspection procedures.
- Communicating findings to the firm's senior management and determining the corrective actions or steps to be taken on the engagements reviewed to improve compliance with the firm's policies and procedures and professional standards
- Preparing a summary inspection report that evaluates the overall results of the inspection to determine whether –
 - a. The firm as a whole needs to improve compliance with the firm's policies and procedures.

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- b. Revisions to the firm's quality control policies and procedures are necessary.
- Communicating the need for improved compliance with or changes to the system of quality control in training programmes, partner meetings and firm policy correspondence.
- Periodically reviewing the system of personnel evaluation and counselling to ascertain that –
 - a. Procedures for evaluation and documentation are being followed on a timely basis.
 - b. Requirements established for advancement are being achieved.
 - c. Personnel decisions are consistent with evaluations.
 - d. Recognition is given to outstanding performance.

4. Firm 2's System of Quality Control

- 4.01. This chapter describes how *Firm 2* implements each element of quality control for its practice. *Firm 2* is representative of a practice comprising of less than 8 partners and less than 80 professionals. Its portfolio comprises mainly of small businesses but also includes a few medium-sized ones some of which are public interest and regulated entities. The firm uses practice aids issued by the ICAEW, ACCA and other equivalent professional bodies which are supplemented by oral and written communications from the firm's partners. To enhance communications, the firm has chosen to provide its personnel with a written summary of its quality control policies and procedures that contains statements incorporated by reference to policies and procedures from practice aids, tailored to the specific needs of its practice.

Independence, Ethics, Integrity, and Objectivity

- 4.02 The objective of the *Independence, Ethics, Integrity, and Objectivity* element of a system of quality control is to provide the firm with reasonable assurance that the practice as a whole, its partners and personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional responsibilities with integrity, engage in ethical behaviour and maintain objectivity in discharging professional responsibilities.
- 4.03 *Firm 2* satisfies this objective by establishing and maintaining the following policies and procedures.

4.04. Policy 1

The firm, its partners and personnel will adhere to applicable independence, ethical, integrity, and objectivity requirements. These requirements include regulations, interpretations and rulings of the Malta Institute of Accountants, the Accountancy Board, The Malta Financial Services Authority and other country-specific regulatory bodies where applicable.

- 4.05 Firm 2 implements this policy by -
- a. Designating a partner to assume the responsibility to provide guidance, answer questions, and resolve matters relating to independence, ethics, integrity and objectivity.
 - b. Identifying circumstances where documentation of the resolution of matters is appropriate.
 - c. Obtaining written representations from personnel, shortly after recruitment and on an annual basis, stating whether they are familiar with and are in compliance with professional standards and the firm's policies and procedures regarding independence, ethics, integrity, and objectivity.
 - d. Assigning responsibility for obtaining representations, reviewing compliance files for completeness, and resolving reported exceptions to a partner.

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- e. Periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence.

4.06. Policy 2

Personnel will be familiar with policies and procedures relating to independence, ethics, integrity, and objectivity.

4.07 Firm 2 implements this policy by -

- a. Subscribing to and updating relevant professional literature including the IFAC, MIA and Accountancy Board Codes of Ethics and accountancy journals and making these available in its office library.
- b. Emphasizing the concepts of independence, ethics, integrity, and objectivity during its staff meetings, in the acceptance and continuance of clients and engagements, and in the performance of engagements, including discussing implications of auditing regulated entities and the types of non-attest services that could affect independence.
- c. Informing personnel on a timely basis of those entities to which independence policies apply, by -
 - (1) Preparing and maintaining a list of entities to which independence policies apply.
 - (2) Making the list available to personnel who need it to determine their independence (including personnel new to the firm and certain former partners).
 - (3) Notifying personnel of changes in the list on a timely basis.

Personnel Management

4.08 The objective of the *Personnel Management* element of a system of quality control is to provide the firm with reasonable assurance that all personnel have the proficiency to perform their assigned responsibilities. Attributes or qualities that enhance the proficiency of personnel who perform, supervise, or review work include integrity, objectivity, intelligence, judgment, competence, experience, and motivation.

4.09 Firm 2 satisfies this objective by establishing and maintaining the following policies and procedures.

4.10 Policy 1

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Personnel who are hired will possess the appropriate characteristics to enable them to perform competently.

4.11 *Firm 2* implements this policy by -

- a. Establishing a general understanding among the partners of the attributes, achievements, and experiences desired in entry-level and experienced personnel.
- b. Establishing criteria to evaluate personal characteristics such as integrity, competence, and motivation.
- c. Setting guidelines as to additional procedures that are necessary when recruiting experienced personnel such as performing background checks and inquiring about any outstanding regulatory actions.
- d. Designating a competent individual in the firm to be responsible for managing the human resource function.

4.12 **Policy 2**

The firm will assign personnel on the basis of the degree of technical training and proficiency required in the circumstances and the nature and extent of supervision to be provided.

4.13 *Firm 2* implements this policy by conducting periodic partner and manager meetings to discuss the assignment of personnel to engagements. The factors to be considered in making such decisions include -

- Engagement size and complexity.
- Specialised experience and expertise required.
- Personnel availability and involvement of supervisory personnel.
- Timing of the work to be performed.
- Continuity and rotation of personnel.
- Opportunities for on-the-job training.
- Situations where independence or objectivity concerns exist.

4.14 **Policy 3**

Personnel will participate in continuing professional education and professional development activities that enable them to satisfy responsibilities assigned and fulfil applicable continuing professional education requirements of the Malta Institute of Accountants and the Accountancy Board.

4.15 *Firm 2* implements this policy by -

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- a. Assigning responsibility to a partner to maintain an office professional development programme that -
 - (1) Provides that personnel in the office participate in professional development programmes in accordance with firm guidelines and in subjects that are relevant to their responsibilities.
 - (2) Considers requirements of the Accountancy Board, the Malta Institute of Accountants and any other regulatory agencies in establishing the firm's CPE requirements.
- b. Encouraging participation in other professional development activities for personnel at each level within the firm, such as participation in external professional development programmes, including university courses, membership in professional organisations, serving on professional committees, and writing for professional publications.
- c. Communicating and distributing to personnel, when applicable, changes in accounting, auditing, and independence requirements and the firm's guidance with respect to them.

4.16 Policy 4

Personnel selected for advancement will have the qualifications necessary to fulfil the responsibilities they will be called on to assume.

4.17 Firm 2 implements this policy by -

- a. Assigning responsibility to a partner for making advancement and termination decisions. Such responsibilities include -
 - Identifying responsibilities and requirements for evaluation at each level and indicating who will prepare evaluations and when they will be prepared.
 - Using forms for evaluating the performance of personnel.
 - Reviewing evaluations with the individual being evaluated on a timely basis.
- b. Counselling personnel regarding their progress and career opportunities by -
 - (1) Annually summarizing and reviewing with personnel the evaluation of their performance, including an assessment of their progress with the firm. Considerations should include performance, future objectives of the firm and the individual, assignment preferences, and career opportunities.
 - (2) Evaluating partners periodically by means of counselling, quality assurance evaluation, or self-appraisal, as appropriate.

Acceptance and Continuance of Clients and Engagements

- 4.18** The objective of the *Acceptance and Continuance of Clients and Engagements* element of a system of quality control is to establish criteria for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. Such policies and procedures should provide the firm with reasonable assurance that –
- a. the likelihood of association with a client whose management lacks integrity and/or who may be engaged in money laundering or other illegal activities, is minimized
 - b. the firm undertakes only those engagements that can be completed with professional competence, that do not impair the independence of the practice and that do not present unacceptable conflicts of interest
 - c. the risks associated with providing professional services in particular circumstances are appropriately considered, and
 - d. an understanding with the client regarding the services to be performed is reached.

The firm should implement prevention of money laundering measures as required by law as an integral part of its client engagement and acceptance procedures.

- 4.19** *Firm 2* satisfies this objective, both with respect to the initial period for which the firm is performing its service and for subsequent periods, by establishing and maintaining the following policies and procedures.

4.20 **Policy 1**

The firm will evaluate factors that have a bearing on management’s integrity.

- 4.21** *Firm 2* implements this policy by –
- a. Informing personnel of the firm’s policies and procedures, including those outlined in the firm’s guidance materials and practice aids, for accepting and continuing clients and for meeting the firm’s obligations under the Prevention of Money Laundering Regulations.
 - b. Obtaining and evaluating available financial information regarding the client and its operations such as annual reports, interim management accounts, internet websites, MFSA, credit-rating agencies before accepting or continuing a client.
 - c. Making inquiries of the client management about the nature and purpose of services to be provided.
 - d. Making inquiries of the client’s bankers, legal advisors and others having business relationships with the entity.
 - e. Communicating with the predecessor accountant when required or suggested by professional standards.

- f. Evaluating the information obtained regarding management's integrity and documenting the results of the client engagement risk assessment.

4.22 Policy 2

The firm will evaluate whether the engagement can be completed with professional competence and accordingly undertake only those engagements that can be completed with professional competence, that do not impair the independence of the practice and that do not present unacceptable conflicts of interest. The firm will appropriately consider the risk associated with providing professional services in particular circumstances.

4.23 Firm 2 implements this policy by -

- a. Evaluating whether the firm has obtained or can reasonably expect to obtain the knowledge and expertise necessary to enable it to perform the engagement.
- b. Specifying conditions that require evaluation of a specific client or engagement, obtaining relevant information to determine whether the relationship should be continued, and establishing a time period for evaluations to be made (for example, continuance decisions should be made at least annually). Conditions include the following:
 - Significant changes in the client, for example, a major change in senior client personnel, ownership, advisors, the nature of its business, or the financial stability of the client.
 - Changes in the nature or scope of the engagement, including requests for additional services.
 - Changes in the composition of the firm, for example, the inability to replace the loss of key personnel who are particularly knowledgeable about a specialised industry, or the decision to discontinue services to clients in a particular industry.
 - The existence of conditions that would have caused the firm to reject the client or engagement had such conditions existed at the time of the initial acceptance.
 - Late payment of fees which may also affect the firm's independence.
 - Engagements for entities operating in highly specialised or regulated industries, including financial institutions and government entities.
 - Where there is a burdensome amount of hours required to complete the engagement.
 - Engagements for entities in the development stage.

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- c. Evaluating the information obtained regarding acceptance or continuance of the client*.
- (1) All information obtained about the client is evaluated by the engagement partner, who makes a recommendation regarding whether the client is to be accepted or continued.
 - (2) The engagement partner completes a client acceptance form and submits it to the managing partner for approval.
 - (3) The engagement partner signs off the planning programme noting client continuance, and a form documenting client continuance is completed if conditions identified above (paragraph 4.23b) exist.
 - (4) The managing partner is responsible for evaluating and approving the recommendation made by the engagement partner. If the managing partner recommends not accepting or discontinuing a client relationship and there is disagreement between the engagement partner and the managing partner, all partners in the firm will review all of the information and participate in the acceptance or continuance decision.
- d. Evaluating the information obtained regarding the acceptance or continuance of the engagement*.
- (1) The engagement partner will sufficiently discuss the nature and scope of the proposed engagement with the client, evaluate the information obtained and make a recommendation regarding whether the engagement should be accepted or continued.
 - (2) The engagement partner completes an engagement acceptance form and submits it to the managing partner for evaluation and approval.
 - (3) In the case of repeat engagements, the engagement partner signs off the planning programme noting engagement continuance, and a form documenting continuance is completed if conditions identified above (paragraph 4.23b) exist.

** Note the distinction between 1) client acceptance procedures, which are required irrespective of the nature of the engagement performed for that client and 2) engagement acceptance procedures, which are required to be performed prior to commencing new engagements or repeated services for any given client.*

4.24 Policy 3

The firm will obtain an understanding with the client regarding the services to be performed.

- 4.25** Firm 2 implements this policy by requiring that all understandings with the client be in writing by obtaining an engagement letter on all engagements, thus minimizing the risk

of misunderstanding regarding the nature, scope, and limitations of the services to be performed.

Engagement Performance

4.26 The objective of the *Engagement Performance* element of a system of quality control is to provide the firm with reasonable assurance that the work performed by engagement personnel meets the applicable professional standards, regulatory requirements, and the firm's standards of quality. Policies and procedures for engagement performance encompass all phases of the design and execution of the engagement. To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement. Policies and procedures should also provide that personnel refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the firm, when appropriate.

4.27 *Firm 2* satisfies this objective by establishing and maintaining the following policies and procedures.

4.28 Policy 1

Planning for engagements, which meet professional, regulatory, and the firm's requirements.

4.29 *Firm 2* implements this policy by maintaining and providing personnel with the firm's guidance materials and practice aids which prescribe the factors to be considered in the planning process by the engagement team and the extent of documentation of the considerations which may vary depending on the size and complexity of the engagement. Planning considerations include -

- Assigning responsibilities to appropriate personnel during the planning phase.
- Developing or updating background information.
- Developing a planning document that may include –
 - Proposed work programmes, tailored to the specific engagement.
 - Staffing requirements and the need for specialised knowledge.
 - Considering the economic conditions affecting the client or its industry and their potential impacts on the conduct of the engagement.
 - Considering the risks and how they may affect the procedures to be performed.
 - Preparing a budget that allocates a sufficient amount of time so

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the engagement will be performed in accordance with professional standards and the firm's quality control policies and procedures.

4.30 Policy 2

The engagement will be performed, supervised, reviewed, documented, and communicated in accordance with the requirements of professional standards, regulatory authorities, and the firm.

4.31 Firm 2 implements this policy by -

- a. Providing adequate supervision during the course of an engagement. This supervision is based on the training, ability, and experience of the personnel assigned.
- b. Adhering to the guidelines set forth by the firm and in its practice aids for the form and content of working papers.
- c. Utilizing appropriately tailored forms, checklists, and questionnaires to assist in the performance of the specific engagement.
- d. Adhering to documentation guidelines set by the firm regarding the review of working papers, financial statements, and reports -
 - (1) All reviewers are to have appropriate experience, competence, and responsibility.
 - (2) All work performed and the reports and financial statements issued are to be complete and comply with professional standards and firm policy.
 - (3) All engagements require appropriate evidence of review of working papers, financial statements, and reports.
 - (4) All differences of professional judgment within an engagement team are to be resolved by the engagement partner and the managing partner. The resolution of the differences must be appropriately documented. If a member of the team continues to disagree with the resolution, he or she may disassociate himself or herself from the resolution of the matter and will be offered the opportunity to document that a disagreement still exists.

4.32 Policy 3

The firm will identify areas and specialised situations where consultation is required and will require personnel to refer to authoritative literature and practice aids and to consult, on a timely basis, with individuals within or outside the firm when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

4.33 Firm 2 implements this policy by -

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- a. Informing personnel of the firm's consultation policies and procedures.
- b. Consulting with appropriate individuals within and outside the firm when issues arise in certain areas.
- c. Requiring consultation in specialised areas or specialised situations, which may include –
 - Application of newly issued technical pronouncements.
 - Industries with special accounting, auditing, or reporting requirements.
 - Emerging practice problems.
 - Choices among IFRS upon initial adoption or when an accounting change is made.
 - Reissuing of a report, consideration of omitted procedures after a report has been issued or subsequent discovery of facts that existed at the time a report was issued.
 - Filing requirements of regulatory bodies.
- d. Maintaining an adequate and up-to-date reference library that is accessible to all professional personnel and that includes materials related to clients served.
- e. Documenting all relevant facts, circumstances, professional literature used, and conclusions reached in the engagement working papers.
- f. Documenting the resolution of differences of opinion. If on some occasions there is an unresolved disagreement, an outside source may be consulted to assist in determining the appropriate application of IFRS.

Monitoring

4.34 The objective of the *Monitoring* element of a system of quality control is to provide the firm with reasonable assurance that the policies and procedures relating to the other elements of quality control are suitably designed and being effectively applied. Monitoring is an ongoing consideration and evaluation process.

4.35 *Firm 2* satisfies this objective by establishing and maintaining the following policies and procedures.

4.36 **Policy 1**

The firm will consider and evaluate, on an ongoing basis, the relevance and adequacy of its quality control policies and procedures.

4.37 *Firm 2* implements this policy by designating a partner or partners to be responsible for risk management and quality assurance, including -

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- Assuring that the firm’s quality control policies and procedures and its audit methodology remain relevant and adequate. Factors to be considered include -
 - Mergers and divestitures of portions of the practice.
 - Changes in professional standards or other regulatory requirements applicable to the firm’s practice.
 - Results of inspections and quality assurance reviews.
 - Any litigation, adverse publicity and regulatory enforcement actions against the firm.
 - Impact that changes in technology may have on clients’ methods of doing business.
 - Changes in clients’ industries that impact their operations.
 - Changes in applicable Professional Institute membership requirements.
- Determining whether personnel have been appropriately informed of their responsibilities for maintaining the firm’s standards of quality in performing their duties.
- Identifying the need to –
 - a. Revise policies and procedures related to the other elements of quality control because they are ineffective or inappropriately designed.
 - b. Improve compliance with firm policies and procedures that are related to the other elements of quality control.

4.38 Policy 2

The firm will consider and evaluate, on an ongoing basis, the appropriateness of its guidance materials and any practice aids.

4.39 Firm 2 implements this policy by -

- a. Reviewing and evaluating firm practice aids, such as audit programmes, forms, and checklists, based on the issuance of new professional pronouncements.
- b. Providing guidance during staff meetings regarding new professional standards, regulatory requirements, and related changes to firm practice aids.

4.40 Policy 3

The firm will consider and evaluate, on an ongoing basis, the effectiveness of

professional development programmes.

4.41 *Firm 2* implements this policy by -

- a. Designating a management-level individual with the responsibility for reviewing the professional development policies and procedures to determine whether they are appropriate, effective, and meeting the needs of the firm.
- b. Designating a management-level individual to review summaries of CPE records for the firm's personnel to determine that the office has established a means of tracking each individual's compliance with the requirements of the Malta Institute of Accountants and the Accountancy Board.
- c. Soliciting information from the firm's personnel during staff meetings regarding the effectiveness of training programmes.

4.42 **Policy 4**

The firm will consider and evaluate, on an ongoing basis, compliance with its policies and procedures.

4.43 *Firm 2* implements this policy by -

- a. Designating a partner to be responsible for performing an annual inspection using professional guidance for performing inspection procedures. These procedures include reviewing a cross-section of engagements using the following criteria:
 - (1) Significant specialised industries with emphasis given to high-risk engagements
 - (2) Engagements for regulated entities
 - (3) First-year engagements
 - (4) Level of service performed (that is, audit, review, compilation, and attest)
 - (5) All partners and other management level personnel.
- b. Reviewing correspondence regarding consultation on independence, integrity, and objectivity matters, and acceptance and continuance decisions.
- c. Reviewing the resolution of matters reported by professional personnel on independence circularization forms to determine that matters have been appropriately considered and resolved.
- d. Summarizing findings resulting from the inspection procedures.

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- e. Preparing a summary inspection report for the partners that evaluates the overall results of the inspection and that sets forth any recommended changes to the firm's policies and procedures.
- f. Communicating inspection findings and agreed-upon quality control changes to all professional personnel.

5. A Sole Practitioner's System of Quality Control

- 5.01** This chapter describes how *Sole Practitioner* implements each element of quality control for his/her accounting practice. Sole practitioner is representative of a practice comprising of one practitioner who has no fulltime professional staff but who occasionally hires professionals to assist on certain assignments. The practitioner uses practice aids issued by the Malta Institute of Accountants or other professional bodies.

Independence, Ethics, Integrity, and Objectivity

- 5.02** The objective of the *Independence, Ethics, Integrity, and Objectivity* element of a system of quality control is to provide the practice with reasonable assurance that the practice and its personnel maintain independence (in fact and in appearance), in all required circumstances, perform all professional responsibilities with integrity, engage in ethical behaviour and maintain objectivity in discharging professional responsibilities.
- 5.03** *Sole Practitioner* satisfies this objective by establishing and maintaining the following policy and procedures.

5.04 Policy 1

Sole practitioner will adhere to applicable independence, ethical, integrity, and objectivity requirements. These requirements include regulations, interpretations and rulings of the Malta Institute of Accountants, the Accountancy Board, and other regulatory bodies where applicable.

- 5.05** *Sole Practitioner* implements this policy by -
- a. Obtaining annually the most current ISA and IFRS handbooks, MIA and Accountancy Board Code of Ethics and other professional guidance.
 - b. Reviewing unpaid fees from clients to ascertain whether any outstanding amounts impair the practice's independence.
 - c. Reviewing relevant pronouncements relating to independence, ethics, integrity, and objectivity in Accountancy Journals and retaining copies of them.
 - d. Signing off each engagement programme attesting to the independence of the practice and requiring any personnel to do the same.

Personnel Management

- 5.06** The objective of the *Personnel Management* element of a system of quality control is to provide the practice with reasonable assurance that Sole Practitioner and all personnel have the proficiency to perform their assigned responsibilities. Attributes or qualities that enhance the proficiency of personnel who perform, supervise, or review work include integrity, objectivity, intelligence, judgment, competence, experience, and motivation.

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5.07 *Sole Practitioner* satisfies this objective by establishing and maintaining the following policies and procedures.

5.08 Policy 1

Sole practitioner will maintain the degree of technical training and proficiency required in the circumstances.

5.09 *Sole Practitioner* implements this policy by -

- a. Evaluating the knowledge and expertise required to perform the engagement prior to accepting the client or engagement.
- b. Accepting only those engagements that can be performed with professional competence.

5.10 Policy 2

Sole practitioner and any personnel will participate in continuing professional education and professional development activities that would enable the practice to satisfy all its responsibilities and fulfil applicable continuing professional education requirements of the Malta Institute of Accountants and the Accountancy Board.

5.11 *Sole Practitioner* implements this policy by -

- a. Developing a professional development programme and considering the requirements of the Malta Institute of Accountants and the Accountancy Board.
- b. Participating in external professional development programmes.
- c. Joining and becoming an active member of professional organisations and hiring only personnel who themselves are active members of such organisations.
- d. Serving on professional committees, writing for professional publications, when appropriate, and participating in other professional activities.
- e. Considering changes in the applicable professional standards when determining the practice's professional development programme.

Acceptance and Continuance of Clients and Engagements

5.12 The objective of the *Acceptance and Continuance of Clients and Engagements* element of a system of quality control is to establish criteria for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. Such policies and procedures should provide the practice with reasonable assurance that -

- a. the likelihood of association with a client whose management lacks integrity and/or who may be engaged in money laundering or other illegal activities, is

minimized,

- b. the practice undertakes only those engagements that can be completed with professional competence, that do not impair the independence of the practice and that do not present unacceptable conflicts of interest,
- c. the risks associated with providing professional services in particular circumstances are appropriately considered, and
- d. an understanding with the client regarding the services to be performed is reached.

Sole Practitioner should implement Prevention of Money Laundering measures as required by law as an integral part of the practice's client engagement and acceptance procedures.

5.13 *Sole Practitioner* satisfies this objective, both with respect to the initial period for which the practice is performing its service and for subsequent periods, by establishing and maintaining the following policies and procedures.

5.14 Policy 1

Sole Practitioner will evaluate factors that have a bearing on management's integrity.

5.15 *Sole Practitioner* implements this policy by -

- a. Obtaining information such as the following before accepting or continuing a client, paying particular attention to the requirements of the Prevention of Money Laundering Regulations, 2003:
 - Available information regarding the client and its operations from sources such as prior-year reports, internally generated financial statements (if applicable), income tax returns, and other source reports.
 - The nature and purpose of the services to be provided.
- b. Inquiring of third parties such as bankers and legal advisors.
- c. Communicating with the predecessor accountant when required or suggested by professional standards.
- d. Evaluating the information obtained regarding management's integrity and documenting the results of the client engagement risk assessment.

5.16. Policy 2

Sole practitioner will evaluate whether the engagement can be completed with professional competence and accordingly undertake only those engagements that can be completed with professional competence, that do not impair the independence of the practice or present unacceptable conflicts of interest. Sole Practitioner will appropriately consider the risk associated with providing professional services in particular circumstances.

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5.17 *Sole Practitioner* implements this policy by -

- a. Considering conditions that require evaluation of a client or specific engagement and obtaining the relevant information to determine whether the relationship should be continued. Conditions include -
 - Establishing a time period for evaluations to be made (before the current-year engagement work begins).
 - Significant changes in the client, for example, a major change in ownership, senior client personnel, directors, advisors, the nature of the business, or the financial stability of the client.
 - Changes in the nature or scope of the engagement, including requests for additional services.
 - The existence of conditions that would have caused the practice to reject the client or engagement had such conditions existed at the time of the initial acceptance.
 - Late payment of fees which may also affect the practice's independence.
- b. Determining if the knowledge and expertise necessary to perform the engagement exists or can reasonably be obtained.
- c. Evaluating the information obtained regarding the engagement and making the acceptance decision and documenting the evaluation or conclusion in a memorandum.
- d. Evaluating the information obtained regarding the engagement and making the continuance decision.

5.18 **Policy 3**

Sole Practitioner will obtain an understanding with the client regarding services to be performed.

5.19 *Sole Practitioner* implements this policy by -

- a. Adhering to all requirements set forth in the Code of Ethics and professional guidance regarding obtaining an understanding with the client.
- b. Requiring that the understanding with the client be documented either through an engagement letter or in a memorandum.

Engagement Performance

5.20 The objective of the *Engagement Performance* element of a system of quality control is to provide the practice with reasonable assurance that the work performed by engagement personnel meets the applicable professional standards, regulatory requirements, and the practice's standards of quality. Policies and procedures for engagement performance

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encompass all phases of the design and execution of the engagement. To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement. Policies and procedures should also provide that personnel refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the practice, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

5.21 *Sole Practitioner* satisfies this objective by establishing and maintaining the following policies and procedures.

5.22 Policy 1

Sole Practitioner will plan engagements to meet professional and the practice's requirements.

5.23 *Sole Practitioner* implements this policy by adhering to professional standards regarding the planning process and the extent of documentation, if applicable. Engagement planning considerations may include, when applicable -

- Developing or updating background information.
- Obtaining an engagement letter.
- Reviewing prior financial statements.
- Using work programmes.

5.24 Policy 2

Sole Practitioner will perform, supervise, review, document, and communicate in accordance with the requirements of professional standards and the practice.

5.25 *Sole Practitioner* implements this policy by requiring the use of professional guidance and practice aids on all appropriate engagements including -

- Maintaining availability of professional guidance notes, practice aids and ISA and IFRS.
- Preparing all working papers and checklists in accordance with practice policy in order to document work performed in accordance with ISA and IFRS.
- Reviewing and initialing all engagement working papers in situations prepared by professional staff.

5.26 Policy 3

Sole Practitioner will identify areas and specialised situations where consultation is required, will require personnel to refer to authoritative literature and practice aids and will consult, on a timely basis, with individuals outside the practice when

appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

- 5.27 *Sole Practitioner* implements this policy by -
- a. Maintaining a technical reference library to assist in resolving practice problems. The library is updated as needed.
 - b. Referring to other professional accountants when a practice problem arises for which the practice needs additional expertise.
 - c. Requiring documentation of consultation, which include all relevant facts and circumstances and references to professional literature used in the determination and conclusion reached. This documentation is to be retained in the engagement working papers.

Monitoring

5.28 The objective of the *Monitoring* element of a system of quality control is to provide the practice with reasonable assurance that the procedures relating to the other elements of quality control are suitably designed and being effectively applied. Monitoring is an ongoing consideration and evaluation process.

5.29 *Sole Practitioner* satisfies this objective by establishing and maintaining the following policies and procedures.

5.30 Policy 1

Sole Practitioner will consider and evaluate, on an ongoing basis, the relevance and adequacy of the practice's quality control policies and procedures.

- 5.31 *Sole Practitioner* implements this policy by reviewing procedures that identify the need to -
- a. Revise policies and procedures that are ineffective due to changes in professional standards or the nature of the practice.
 - b. Improve compliance with practice policies and procedures that are related to the other elements of quality control.

5.32 Policy 2

Sole Practitioner will consider and evaluate, on an ongoing basis, the appropriateness of the practice's guidance materials and any practice aids.

5.33 *Sole Practitioner* implements this policy by reviewing and determining that the practice's guidance materials are up-to-date based on the issuance of new professional pronouncements.

5.34 Policy 3

Sole Practitioner will consider and evaluate, on an ongoing basis, the effectiveness of professional development activities.

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5.35 *Sole Practitioner* implements this policy by -

- a. Reviewing CPE records to determine whether the programmes are appropriate for the practice.
- b. Reviewing CPE records to determine compliance with the requirements of the Malta Institute of Accountants and the Accountancy Board.

5.36 **Policy 4**

Sole Practitioner will consider and evaluate, on an ongoing basis, compliance with the practice's policies and procedures.

5.37 *Sole Practitioner* implements this policy by performing a post-issuance review of selected engagements, in order to -

- a. Summarize findings resulting from such reviews.
- b. Place additional emphasis on certain deficient areas in future engagements.
- c. Determine if existing policies and procedures should be modified so any deficiencies noted do not recur.

Sole Practitioner will also consider the appropriateness of involving other professionals in carrying out such reviews.