

(III) Part B – Sample policies for Small or Medium-sized partnership

	Relevant sections in 2006 edition	Relevant standards	Key updates in 2013 edition
1	Managing professional risk (Monitoring compliance)	HKSQC 1.48-1.49	<ul style="list-style-type: none"> • The concept of monitoring quality control is clarified. Monitoring process comprises of two parts, i.e. yearly evaluation of the firm's compliance with its quality control policies and procedures, and cyclical inspection of completed files • Two roles (completed file monitor and ongoing policy monitor) are introduced as follows: <p style="margin-left: 20px;">APPOINTMENT OF MONITORS</p> <p style="margin-left: 20px;">The managing partner (or engagement quality leader) shall appoint a suitably qualified partner(s) or other senior person(s) with the necessary competence, capabilities and time available to be:</p> <p style="margin-left: 20px;">a) The CFM = Completed File Monitor (cyclical file inspections);</p> <p style="margin-left: 20px;">b) The OPM = Ongoing Policy Monitor; or</p> <p style="margin-left: 20px;">c) Both the CFM and the OPM (both roles performed by the same person).</p> <p style="margin-left: 20px;">A person appointed as CFM may not perform an inspection of a completed file in which he/she had any involvement performing the engagement or the engagement quality control review.</p> • The following new policy and procedure is added: <p style="margin-left: 20px;">RESULTS OF MONITORING PROCESS</p> <p style="margin-left: 20px;">The monitor(s) shall document the results of the monitoring process and report any deficiencies noted on a timely basis (at least annually) to the managing partner. In preparing his/her report, the monitor(s) shall evaluate the effect of the deficiencies and determine whether they are:</p> <p style="margin-left: 20px;">a) Serious Matters that require immediate corrective action by the engagement partner to determine what further action (including legal advice) is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements. Examples include omission of required procedures, non-compliance with ethical requirements and the issuing of an engagement report that was inappropriate in the circumstances;</p> <p style="margin-left: 20px;">b) Systemic, repetitive or otherwise significant Matters that require prompt corrective action such as additional staff training and changes in the Firm's policies and procedures; and</p> <p style="margin-left: 20px;">c) Isolated Matters that require consideration but do not indicate that the Firm's system of quality control is deficient or that the engagement reports issued are inappropriate.</p> <p style="margin-left: 20px;">The monitor(s) shall also recommend what actions are required to resolve these deficiencies.</p>
2	Independence and ethics (independence/ Conflict of	HKSQC 1.22-1.23 HKSA 220.11	<ul style="list-style-type: none"> • The following new policy and procedure is added: <p style="margin-left: 20px;">KEEPING THE ETHICS LEADER AND PARTNERS/STAFF INFORMED</p> <p style="margin-left: 20px;">Engagement partners shall keep the ethics leader informed about client engagements accepted, including the scope of services provided.</p>

	interest)		<p>The ethics leader is responsible for preparing, maintaining and providing information to all partners and staff on the following:</p> <p>a) Relevant ethical requirements; b) Relevant information about client engagements, including the scope of services; c) When applicable, a current listing of prohibited investments; and d) The partners, staff and others (subject to them, such as affiliated firms) shall regularly review this information to:</p> <p>i. Determine whether they comply with independence and other ethical requirements ii. Identify and report to the ethics leader any independence breaches, impairments or other non-compliance with the Firm's policies.</p> <p>The ethics leader shall ensure that this information is communicated to partners and staff by circulation of relevant data (such as on the Firm's Intranet or by e-mail or hard copy distribution) and through staff orientation and training sessions as considered necessary.</p>
3	Independence and ethics (Independence/ Conflict of interest)	HKSA 220.9 - 220.10	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>NEW INFORMATION OF NONCOMPLIANCE</p> <p>The engagement partner shall remain alert at all times, through observation and making inquiries as necessary, for evidence of noncompliance with relevant ethical requirements by members of the engagement team.</p> <p>Where new information is obtained, the engagement partner (in consultation with the ethics leader) shall take appropriate action.</p>
4	The firm environment (Setting the tone)	HKSQC 1.13 - 1.15	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>LEADERSHIP RESPONSIBILITIES</p> <p>Each person assigned an operational responsibility for the Firm's system of quality control shall:</p> <p>a) Conduct the assigned role to the best of his/her ability; b) Be accountable and communicate regularly to the person charged with overall responsibility for quality control; c) Have read and understood:</p> <p>i. The entire text of HKSQC 1 and the related standards (such as HKSA 220) ii. The job description iii. The Firm's objectives, plans and communications to staff relating to quality improvement; d) Be one of the most knowledgeable resources in the Firm in respect to the specific area assigned; e) Provide leadership in creating a culture that recognizes the importance of quality work; f) Address identified issues on a timely basis and document their resolution; g) Ensure the Firm's policies and procedures in relation to the assigned area of responsibility are:</p> <p>i. Appropriately designed and implemented. Policies shall be sufficient to ensure ongoing compliance with each relevant requirement of HKSQC 1 ii. Communicated to all partners and staff iii. Complied with by partners and staff iv. Properly maintained through an annual review and update; h) Ensure that the practice aids in use (such as checklists, software programs, forms, work programs and template letters) are up-to-date and readily accessible to partners and staff; and i) Prepare an annual report to be submitted to the managing partner (or partners) on the work performed and major issues identified along with their resolution and recommendations for improvements.</p>

5	The firm environment (Partner/senior staff rotation)	HKSQC 1.25 CODE	<ul style="list-style-type: none"> The concept of "key audit partner" and "public interest entities" are added in the following policy and procedure: <p>LONG-TIME ASSOCIATION WITH A CLIENT</p> <p>Where the lead partner and senior personnel have worked on an engagement for a prolonged period of time (such as seven years or more), familiarity and self-interest threats can occur.</p> <p>The ethics leader (or managing partner) working with the engagement partner(s) is responsible to identify and evaluate such threats and apply appropriate safeguards such as partner rotation or performance of an engagement quality control review (EQCR).</p> <p>For audits of public interest entities:</p> <p>a) The key audit partner should be:</p> <ul style="list-style-type: none"> i) rotated for a pre-defined period of no more than seven years; and ii) not participate again in the engagement until two years, have elapsed. <p>For audits of non-public interest entities an EQCR shall be performed whenever the following circumstances exist:</p> <p>a) Significant third-party reliance will be placed on the engagement report, such as entities with a large number (greater than 25) of passive shareholders;</p> <p>b) A close personal or business relationship exists; or</p> <p>c) A recurring self-interest or intimidation threat arises such as from:</p> <ul style="list-style-type: none"> i. Annual billings, plus other related entities, for all services exceeding 15% of the lead partner's total annual billing volume, and/or 10% of the Firm's annual billing volume ii. An unresolved threat or potentially significant legal/disciplinary actions. <p>Where partner rotation is impractical to implement, the matter shall be referred to the ethics leader (or managing partner) for discussion and approval (if possible) of alternative safeguards.</p>
6	Human resources risk (Supervision and review)	HKSQC 1.33 HKSA 220.15	<ul style="list-style-type: none"> More detailed policies and procedures on 'Supervision'. Extract of 2013 edition is as follows: <p>SUPERVISION</p> <p>The engagement partner and any engagement team member assigned with supervisory responsibilities shall:</p> <p>a) Track the progress of the engagement;</p> <p>b) Consider the competence and capabilities of individual members of the engagement team. This includes assessing whether the staff:</p> <ul style="list-style-type: none"> i. Have sufficient time to carry out their work ii. Understand their instructions iii. Are performing their work in accordance with the planned approach to the engagement; <p>c) Address matters arising during the engagement, consider their significance and modify the planned approach as appropriate; and</p> <p>d) Identify matters for consultation or consideration by more experienced engagement team members during the engagement.</p>
7	Human resources risk (Supervision and review)	Best practice	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>Second level (partner) review</p> <p>At the discretion of the managing partner or engagement quality leader, certain higher risk engagements [<i>insert Firm's selection criteria</i>] may be selected for review by the engagement quality leader or other designated partner/manager in the Firm. This reviewer will determine the scope of the review, which as a minimum will include:</p> <ul style="list-style-type: none"> i. Review of financial statement disclosures and the proposed report ii. Review of selected engagement documentation relating to

			<p>significant judgments and conclusions reached.</p> <p>All working papers reviewed (for both detailed and general reviews) are required to be dated and initialed (or signed off) by the reviewer.</p> <p>On small engagements, the engagement partner may perform a combined review (detailed and general) where the:</p> <ul style="list-style-type: none"> i. Engagement is not complex ii. Overall engagement risk is assessed as low or medium but not high.
8	Engagement risk (Documentation)	HKSA 220.15	<ul style="list-style-type: none"> • More detailed policies and procedures on 'Engagement planning'. Extract of 2013 edition is as follows: <p>ENGAGEMENT PLANNING</p> <p>At the beginning of each assurance engagement, the engagement partner is responsible to ensure the following activities take place:</p> <ul style="list-style-type: none"> a) Confirm compliance with the client acceptance/continuance procedures outlined in this manual and that (as a result) the engagement may proceed; b) Obtain a signed engagement letter that outlines the terms of the engagement; c) Identify and document factors significant to the nature and timing of work to be performed and for directing the engagement team's efforts; and d) For audit engagements: <ul style="list-style-type: none"> i. Hold planning discussions involving key members of the engagement team ii. Document the overall audit strategy and audit plan, including the nature and extent of planned risk assessment procedures and further audit procedures.
9	Engagement risk (Documentation)	HKSQC 1.36 HKSA 220.17	<ul style="list-style-type: none"> • More detailed policies and procedures on 'Release of engagement reports'. Extract of 2013 edition is as follows: <p>RELEASE OF ENGAGEMENT REPORTS</p> <p>On or before the date of an engagement report, the engagement partner shall, through a review of the documentation and discussion with the engagement team, be satisfied that:</p> <ul style="list-style-type: none"> a) For audit engagements, sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued; b) For review engagements, sufficient procedures have been performed to assess whether the information being reported on is plausible within the framework of appropriate criteria and for the review engagement report to be issued; and c) For other assurance engagements, sufficient evidence has been obtained to support the conclusions reached and the wording of the report to be issued. <p>Where an engagement report is to be signed (by the engagement partner) and issued (in hard copy or electronic format), it may not be released, filed or otherwise distributed by the engagement partner until:</p> <ul style="list-style-type: none"> a) Sufficient appropriate evidence has been obtained which includes: <ul style="list-style-type: none"> i. Resolution of all significant issues ii. Approval of the subject matter (i.e., financial statements) by those with the recognized authority; and b) Approvals to release the report have been obtained (in writing) from: <ul style="list-style-type: none"> i. Engagement file reviewer (manager/supervisor) ii. Engagement partner iii. Engagement quality control reviewer (where applicable) iv. Tax reviewer (where applicable).

10	Engagement risk (Continual improvement)	HKSQC 1.49 - 1.53	<ul style="list-style-type: none"> More detailed policies and procedures on 'Annual assessment and communication of quality control'. Extract of 2013 edition is as follows: ANNUAL ASSESSMENT AND COMMUNICATION OF QUALITY CONTROL On or before [August 31] each year, the managing partner (in consultation with the engagement quality leader) shall obtain and read the reports and recommendations, that impact on engagement quality, obtained from: a) Engagement partners and professional staff responsible for a particular aspect of quality control; b) The ongoing policy monitor and the completed file monitor; and c) Other parties such as practice inspectors and engagement quality control reviewers. Where isolated or engagement specific deficiencies have been noted, the relevant engagement partner is responsible to take corrective action. Where deficiencies have been identified, the managing partner shall communicate to the relevant engagement partners and other appropriate personnel the nature of the deficiencies noted and the appropriate remedial action required. Such actions could include: a) Taking appropriate remedial action in relation to an individual engagement or member of personnel; b) Providing additional training for partners and staff; c) Making changes to the quality control policies and procedures; and d) Initiating disciplinary action against those who fail to comply with the policies and procedures of the Firm, especially those who do so repeatedly. Engagement partners are responsible to consider the most recent report on quality control issued by the managing partner to determine whether the deficiencies noted affect their engagements and if so to take appropriate corrective action. Partners assigned with a leadership role on quality control are responsible for determining whether the deficiencies noted affect their area of responsibility and if so (with consultation as necessary with other partners) to take appropriate corrective action.
11	Engagement risk (Engagement acceptance and continuance)	CODE	<ul style="list-style-type: none"> The following new policy and procedure is added: ENGAGEMENT RISK ASSESSMENT Before accepting a new client, the engagement partner shall communicate with the predecessor firm to ask if there are any reasons the engagement should not be accepted.
12	Engagement risk (Engagement acceptance and continuance)	HKSA 220.13 HKSQC 1.28 CODE	<ul style="list-style-type: none"> The following new policies and procedures are added: REQUEST FOR PROPOSAL To obtain a new client, it is sometimes necessary to submit a written proposal. When the Firm is asked to submit a proposal, the prospective engagement partner (to be named in the proposal) shall: a) Before starting work on preparing the proposal: i. Evaluate whether the engagement could be undertaken in the event the proposal was successful ii. Make inquiries (bankers, online searches, news sources, etc.) about the reputation of the entity and the character of its directors and senior management iii. Make inquiries of management (including a visit to key locations) to understand the nature of the entity, how it is managed and relations with its predecessor auditor (if any) iv. Obtain agreement of the managing partner (or designated

			<p>partners) on the amount of any fixed fee(s) that will be proposed; and</p> <p>b) Before the release of the proposal, be satisfied with the accuracy of the contents, the nature and achievability of commitments made (including fees) and the availability of the named personnel to perform the work as requested.</p> <p>Only a partner may sign and release a proposal on behalf of the Firm.</p> <p>NEW INFORMATION OBTAINED</p> <p>Where new information is obtained that would have caused the Firm to decline the engagement had that information been available earlier, the engagement partner shall discuss the matter with the managing partner (or other designated person) and agree on an appropriate course of action. This would include consideration of:</p> <p>a) Any professional and legal responsibilities such as reporting to the person who made the appointment or regulatory authorities; and</p> <p>b) Withdrawing from the engagement or from both the engagement and the client relationship.</p> <p>When a plan of action has been determined, the engagement partner is responsible for:</p> <p>a) Documenting the nature of the new information received, the consultations made, conclusions reached and the basis for the conclusions; and</p> <p>b) Implementing the action plan, including withdrawal from the engagement where necessary after providing reasonable notice.</p>
13	Engagement risk (Consultation)	HKSA 220 HKSA 600 HKSA 620	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>USING THE WORK OF AN EXTERNAL EXPERT, CONSULTANT OR AUDITOR</p> <p>Where the services of an external expert (consultant or auditor) are required, the engagement partner is responsible to ensure that the person or Firm selected:</p> <p>a) Is independent of the client and free from any conflict of interest;</p> <p>b) Has the necessary competence, capabilities and objectivity required;</p> <p>c) Agrees to comply with the Firm’s privacy and confidentiality policies and procedures;</p> <p>d) Understands and agrees to comply with relevant professional requirements such as those contained in:</p> <ul style="list-style-type: none"> i. Quality control for an audit of financial statements (HKSA 220) ii. Using the work of an auditor’s expert (HKSA 620) iii. Audits of group financial statements (including the work of component auditors) (HKSA 600); <p>e) Agrees to the terms of engagement in an engagement letter that is signed by both parties (Firm and external expert). This letter shall set out:</p> <ul style="list-style-type: none"> i. The scope of the required services ii. Nature/extent of any documentation required iii. The external expert’s (consultant’s or auditor’s) agreement to adhere to all the ethical requirements in the Firm’s quality control manual; and <p>f) Bills the Firm (not the client directly) for the cost of the work performed.</p>
14	Engagement risk (Documentation)	HKSQC 1.46	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>SECURITY OF INFORMATION</p> <p>The information systems leader shall design and implement controls and procedures to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. This will include:</p> <p>a) Procedures to store, safeguard and maintain electronic and paper-based information;</p>

			<p>b) Use of passwords to restrict access to electronic engagement documentation;</p> <p>c) Regular backup routines for electronic engagement documentation stored on the Firm's servers and on equipment used at a client's premises such as laptop computers and smart phones; and</p> <p>d) Backup media shall be stored off-site in a safe location other than the Firm's offices. <i>[Insert Firm's off-site storage procedures and arrangements.]</i></p> <p>e) Retention of a copy of all software applications (including the software versions) and any other technology required to access and retrieve engagement documentation created at any time during the file retention period.</p> <p>When working on a client's premises, the engagement team is responsible for ensuring that engagement documentation is properly safeguarded and kept under their control at all times.</p>
15	Engagement risk (Documentation)	HKSQC 1.46	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>ACCESS AND USE OF ENGAGEMENT DOCUMENTATION</p> <p>Access to engagement documentation is limited to the engagement partner, the engagement team and other authorized parties as necessary.</p> <p>The engagement partner may, at his/her discretion, make parts of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or in the case of assurance engagements, the independence of the Firm or its personnel.</p> <p>No changes (additions, modifications, deletions and annotations) may be made to engagement documentation by persons other than the engagement team or personnel authorized by the engagement partner.</p>
16	Engagement risk (Documentation)	HKSQC 1.A59	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>ELECTRONIC SCANNING OF DOCUMENTS</p> <p>Where an original paper documentation is electronically scanned for inclusion in the engagement file, the engagement team member shall ensure the scanned copy is:</p> <p>a) Identical in form and content to the original paper documentation, including manual signatures, cross-references and annotations;</p> <p>b) Indexed and signed off in the engagement file; and</p> <p>c) Capable of being retrieved and printed.</p> <p>Original paper documentation that has been scanned and saved in electronic format need not be retained unless deemed necessary for legal, regulatory or other reasons.</p>
17	Engagement risk (Documentation)	HKSQC 1.45 HKSA 230.14 HKSA 230.A21	<ul style="list-style-type: none"> The following new policy and procedure is added: <p>COMPLETED FILES</p> <p>At the end of an engagement, it is the responsibility of the engagement team to assemble and collate the engagement documentation into a completed engagement file within 60 days after the date of the engagement report.</p> <p>When the 60-day assembly period has expired, the engagement documentation, of any nature, shall not be deleted, amended or replaced until the end of the file retention period.</p> <p>If it becomes necessary to modify existing engagement documentation or add new documentation after the 60-day assembly period, a memorandum shall be prepared that documents:</p> <p>a) The specific reasons (and implications) for the changes or additions; and</p> <p>b) When and by whom the changes were made and reviewed.</p>