

QUALITY ASSURANCE REVIEW FRAMEWORK

ADMISSION AND LICENSING COMMITTEE

Contents

1. Introduction	3
2. Scope.....	3
3. Quality Assurance Review Team.....	3
4. Reviews	4
4.1. Types of Review	4
4.1.1. Firm Level Review.....	4
4.1.2. Audit Engagement Review	4
4.1.3. Other Engagements Review	5
4.2. Selection Criteria for review	5
4.2.1. Firm Review	5
4.2.2. Audit Engagement Review	5
4.2.3. Other Engagements Review	6
4.2.4. Special Circumstances.....	6
4.3. Pre-engagement	6
4.4. Initial QAR Meeting.....	7
4.5. Firm Level Review Process.....	7
4.6. Audit Engagement Review Process.....	8
4.7. Visit to reviewee's/ firm's premises.....	8
4.8. Documents required for review	9
4.9. QAR Fee	9
4.10. Reviewee Rights.....	9
4.10.1. Protection of information and respect privacy.....	9
4.10.2. Providing reasonable opportunities to make documents available and provide explanations.....	10
4.10.3. Appeal.....	10
5. Reporting.....	11
5.1. QAR Report	11
5.2. Draft QAR Report.....	11
5.3. Finalizing QAR Report.....	12
5.4. QAR Annual Report	13
5.5. Corrective and Disciplinary Actions.....	13
5.5.1. Evaluating corrective actions taken by the firm.....	14

5.6. Appeal Process.....14

1. Introduction

With the ratification of Chartered Accountants Act of the Maldives (Law No. 13/2020) (the “**Act**”) in the year 2020, Institute of Chartered Accountants of the Maldives (hereinafter referred to as “CA Maldives” or the “Institute”) was established as the legal body responsible for regulating the accounting profession in the Maldives.

Pursuant to the Act, CA Maldives is responsible to regulate, promote and develop accountancy and auditing profession in the Maldives.

Under the Regulation for Statutory Audit and Assurance Services in the Maldives (Regulation Number: 2021/R-3) (the “**Regulation**”) made pursuant to the Act, Admission and Licensing Committee (hereinafter referred to as “ALC”) of the Institute is mandated with carrying out the audit quality assurance review, ensuring the licensed auditors are compliant with the requirements of the Act and Regulation, International Standards on Auditing (ISAs), as well as with other statutory and regulatory requirements. To discharge this responsibility and ensure the quality of the audit and other services provided by licensed auditors in Maldives, there is a need to establish a Quality Assurance Review (QAR) system.

The purpose of this framework is to set out the procedures in carrying out QARs. The QAR system aims to ensure compliance with International Standard on Auditing (ISA 220 [Revised]) and International Standard on Quality Management (ISQM 1).

2. Scope

Persons (Individuals & Firms) licensed under the Act and Regulation are subject to QARs by CA Maldives.

3. Quality Assurance Review Team

Admission & Licensing Committee of the Institute holds the responsibility for establishing a system for QARs pursuant to section 14 of the Regulation. The Quality Assurance Review Team comprises of ALC members and selected staff of the Institute. However, ALC can explore the option of engaging external expert (auditor with experience of quality review) to strengthen the capacity and knowledge of the review teams.

A QAR Team Leader will be assigned for each quality assurance review. The QAR Team Leader will supervise the conduct of the quality assurance review, communicate the quality assurance review team’s conclusions to the reviewee and be responsible for preparing the main QAR report and gathering applicable review-related documents. Members of the team must ensure that QARs are undertaken in accordance with procedures set out in the Quality Assurance Review Manual.

4. Reviews

4.1. Types of Review

QARs will be conducted at two levels: the firm level and the engagement level. The engagement level review includes (i) Audit; and (ii) Other Engagements.

4.1.1. Firm Level Review

This review is designed to obtain reasonable assurance that (i) the firm has, or the partner is subject to an adequate system of quality management for the practice relating to audits of financial statements and other engagements; (ii) the firm or the partner complies with that system of quality management; and (iii) the firm has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements and other engagements. As such, compliance with requirements of ISQM 1 will be examined at firm level review.

4.1.2. Audit Engagement Review

Audit engagement reviews shall involve the review of engagement working papers and entity's financial statements of selected audit engagements to evaluate whether;

- audit was conducted as per the requirements of relevant ISAs and the audit opinion was based on the evidence gathered;
- relevant ethical, legal and regulatory requirements were followed throughout the audit;
- the audit evidence obtained and audit judgements and other matters identified were sufficient and appropriate; and
- there was effective implementation of a system of quality management with respect to audits conducted.

Thus, in summary, compliance with requirements of ISA 220 (Revised) will be examined at audit engagement QARs.

4.1.3. Other Engagements Review

Other engagements refer to Other Assurance and Related Services. It is desirable for the largest range of professional services performed by reviewees (individuals & firms) to be subject to the QAR system.

In addition to ISQM 1, compliance with below standards will be examined in this review:

- International Standard on Assurance Engagements – ISAE
- International Standard on Review Engagements – ISRE
- International Standard on Related Services – ISRS

4.2. Selection Criteria for review

The ALC adopts a risk-based approach considering various risk factors when determining the firms or engagements to be reviewed in priority. Firms or partners will be reviewed with reasonable frequency even if not selected as a priority for quality assurance review based on risk factors.

4.2.1. Firm Review

The selection of licensed audit firms for review will be based on several risk factors including, but not limited to:

- Number of PIEs which are audit clients;
- Number of Audit clients (large/ medium);
- Length of time engaged in the practice of auditing in the Maldives;
- Date of last QAR;
- Results of last QAR; and
- Sectors of the auditing profession that are believed to require more scrutiny.

Notwithstanding the above, all firms performing audits of financial statements shall be subject for a Quality Assurance Review once in every four (4) years.

4.2.2. Audit Engagement Review

The selection of audit engagements shall be made from the completed and issued audits of financial statements with fiscal year periods ending during the QAR review period, and if a more recent auditor's report has been issued during the quality assurance review, consideration shall be given to reviewing that audit.

ALC shall develop risk-based and sector specific engagement selection criteria.

4.2.3. Other Engagements Review

The selection of Other Engagements for review will be based on risk factors including, but not limited to:

- the number and range of stakeholders who may make decisions based on the engagement result;
- the extent to which the subject matter and the engagement results are of public interest, or may affect the public's confidence in public institutions or administration; and
- the identification of unusual circumstances or risks in an engagement or class of engagement.

4.2.4. Special Circumstances

Special circumstances may give rise to a QAR of a licensed audit firm or individuals. Such circumstances include, but not limited to:

- Notice of a material irregularity (fraud, material misstatements);
- Complaints from entities and/or stakeholders;
- Requests from other regulatory agencies;
- News releases; and
- Whistleblowing

4.3. Pre-engagement

Selected firms or individuals for QAR will be formally notified via a written notice by email prior to fourteen (14) working days of the review meeting, stating the date, time and place for the QAR meeting and the names of the QAR team.

The reviewee shall inform the ALC within five (5) days after the notification whether the reviewee has any conflict of interest with any of the QAR team members and confirm their attendance.

The reviewee shall inform the ALC details of persons attending the QAR meeting.

4.4. Initial QAR Meeting

QAR team will conduct an initial interview with the reviewee to start the review. An interview will be conducted with reviewee to obtain an understanding of the nature and extent of the firm's audit practice and the methodologies used, the design of the system of quality management of the firm, the firm's ethical and independence policies and procedures, and the firm's training policies and procedures.

4.5. Firm Level Review Process

The procedures performed during the QAR of a firm shall include:

1. An assessment of the system of quality management relating to audits of financial statement. For the assessment, QAR team may obtain the ISQM 1 manual developed by the audit firm or any relevant documents/policies and procedures used by the firm relating to the quality management system.
2. An assessment of compliance with accounting and auditing framework, including an assessment of compliance with international accounting standards and International Standards on Auditing (ISAs), to the extent that such standards are used in the engagements carried out by the firm. For the assessment, QAR team may obtain the following information.
 - A complete list of audit clients. Audit firm can use a unique code number as per client register instead of the client's name.
3. Reviewing policies and procedures established for elements of a system of quality management including, the firms risk assessment process, governance and leadership, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, resources, Engagement performance, information and communication and the monitoring and remediation process.
4. Number of meetings with the audit firm to discuss the focused areas and obtain responses from the firm where additional information is required.
5. Selection of a completed engagement to review quality management policies and procedures and audit working papers to evaluate functioning of the system of quality management and compliance with it; and the compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements.
6. Use of a toolkit developed by ALC for assessment of the system of quality management.

4.6. Audit Engagement Review Process

Engagement level Review shall involve review of engagement working papers and entity's financial statements of selected audit engagements to evaluate:

1. the existence and effectiveness of the system of quality management implemented by the firm, and the performance of the audit;
2. whether or not the audit was carried out and audit report(s) issued by the Firm in accordance with ISAs, relevant ethical requirements, or legal and regulatory requirements as applicable;
3. the sufficiency and appropriateness of evidence documented in the working papers; and
4. based on the above, whether the auditors' report issued is appropriate in the circumstances of the audit.

However, in the absence of any deficiency in the engagements reviewed shall not be construed as an endorsement by the Institute or ALC that the financial statements were necessarily presented fairly or that all aspects of the audit were fully compliant with ISAs and legal and regulatory requirements as applicable in the Maldives. This responsibility shall remain with the engagement partner and the Firm.

4.7. Visit to reviewee's/ firm's premises

Depending on available facilities, the QAR team may visit the premises of the licensed auditor/firm to carry out firm level and engagement level reviews. The team will not search for or take possession of any records. If it is deemed necessary, the QAR team should be allowed to make copies of relevant documents.

4.8. Documents required for review

Section 15(a) of the Regulation (2021/R-3, as amended) requires reviewees (audit licensees) to provide, without delay and concealment, information the ALC deems necessary to conduct the QAR.

Request for documents will be made through email to the registered email address of reviewee. The following document may be examined in a firm level or engagement level review.

1. Manuals, policies relevant to quality management system;
2. List of completed engagements (both statutory audits and other engagements) with names of clients, sectors, fiscal years; and
3. Working papers, audited financial statements, auditor's report of persons selected for review.

If the records are available electronically, documents may be provided electronically through email, stored in a pen drive, or using cloud storage such as google drive, Dropbox, etc. If requested by the QAR team, physical documents must be provided.

If electronic records are not available, or physical records are needed, the QAR team will review the documents at business premises or if required may borrow the documents for further analysis. In this case, the QAR team will provide you a "Document Handover Form" with the details of the borrowed documents. Such borrowed documents will be returned once they are reviewed, and/ or when review is completed.

4.9. QAR Fee

QAR fee will be levied pursuant to Section 16 of the Regulation. The QAR fee will be communicated to the reviewee in the final QAR report.

4.10. Reviewee Rights

Preservation of reviewee rights will always be a priority for QAR team members.

4.10.1. Protection of information and respect privacy

Information received during a review will be protected and considered as confidential. Such information will only be shared when it's required by the Law. The ALC may be required to share information within the Institute if the findings of a QAR are appealed at the relevant committee of the Institute.

4.10.2. Providing reasonable opportunities to make documents available and provide explanations

Reviewees will be provided with the opportunity to meet with the review team or contact via phone/ email during the review and provided with opportunity to furnish documents in an organized readable format and provided opportunity to explain. An Initial QAR Meeting and an Exit Meeting (if required) will be arranged during the review process. Apart from this, reviewees will be provided with the opportunity to submit documents. Reviewees will also have the right to comment/ make representation on the draft QAR report.

4.10.3. Appeal

Reviewees will be reminded of their right to appeal against the findings addressed in the QAR Report with the relevant committee of the Institute at the time of issuing the report.

5. Reporting

5.1. QAR Report

QAR team leader shall be responsible for issuing a written QAR Report (final QAR Report) to the reviewee upon completion of each QAR assignment. The report shall include the following elements.

A conclusion on:

1. whether the reviewee has complied with the requirements of section 14(a) of the Regulation;
2. whether the reviewee's system of quality management has been designed to meet the requirements of the quality management standards described in firm level review;
3. whether the reviewee has complied with its system of quality management during the quality assurance review period;
4. Reasons for any negative conclusions from the review;
5. Recommendations for improvement at both the firm-wide and engagement level; and
6. QAR Rating

ALC determines the form of the QAR Report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).

QAR rating categories include 'satisfactory', 'satisfactory with improvements required' or 'unsatisfactory'. The said categories shall reflect ALC assessment of the overall significance of the areas requiring improvements. The reviewee shall make appropriate changes to its audit approach for subsequent years to address all deficiencies raised. A reviewee is assessed as 'satisfactory' where there are no areas of sufficient significance which need improvements. The category 'satisfactory, with improvements required' indicates that improvements are needed in relation to one or more deficiencies. The reasons for an 'unsatisfactory' QAR rating shall be included in the final QAR report.

5.2. Draft QAR Report

Before a final QAR Report is issued to a reviewee, a draft QAR report, approved by QAR Team Leader shall be communicated to reviewee for representation.

The QAR team must give the reviewee a reasonable opportunity to be heard in respect of the matters set out in the draft QAR report, before QAR report is submitted to ALC. This will be done by allowing the reviewee to make representations in respect of the draft QAR

report. The reviewee will be informed of this right when the draft QAR report is sent to them for this purpose.

Under normal circumstances, the reviewee will be given 14 days to make any representations in writing. However, if the reviewee considers it necessary to make oral representations, they may request a meeting with the QAR team. Such a meeting will only be held if the QAR Team Leader considers fairness in the circumstances requires it.

The reviewee may make such representations to the QAR team as they consider appropriate. However, if the reviewee does not agree with the contents set out in the draft QAR Report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.

5.3. Finalizing QAR Report

When all representations have been received or the deadline for making representations has otherwise passed, the QAR team will consider any representations from the reviewee which have been submitted. The QAR Team Leader may modify the draft QAR Report in the light of such representations.

The QAR Team Leader shall then finalize the QAR Report, and submit the final QAR Report, before the ALC, for approval. Once the final QAR Report is approved by ALC the QAR Team Leader will issue the final QAR Report to the reviewee.

If it is necessary, the reviewee will be asked to make a proposal to ALC in respect of the remedial actions the reviewee intends to take in response to the QAR Report.

The reviewee shall provide a timely written response to the recommendations and conclusions of the QAR Report, including planned actions and expected timeframe for completion or implementation. The response shall be addressed to the QAR team or the ALC. The expected timeframe for completion shall be reasonable and agreed to by the reviewee, the QAR team and ALC.

Having regard to the final QAR Report, and the reviewee proposed remedial actions (if any), the ALC will determine whether to take any follow-up actions (and if so, what actions to take).

5.4. QAR Annual Report

The institute shall prepare and make available to the public, an annual report summarizing the results of the quality assurance reviews (this may include key findings, good practices identified, what the institute would be doing with regard to the key findings).

For confidentiality purposes, the annual report may not include details regarding specific partners, firms, or clients.

5.5. Corrective and Disciplinary Actions

The conclusions of each QAR Report shall be considered by the ALC. When a QAR Report includes an unsatisfactory conclusion, the reviewee to which that conclusion applies shall be required to take appropriate corrective action.

Corrective action may be necessary to address (i) lack of cooperation, (ii) failings in development or application of a system of quality management, or (iii) failure to comply, maintain, or apply professional standards. ALC may consider various forms of corrective action to be taken with respect to firms or partners, taking into consideration the educative purpose of the quality assurance review system, and the level of seriousness of the failure of the reviewee. Corrective actions may include:

1. requiring revisions or additions to quality management policies and procedures or audit methodology;
2. requiring additional CPD;
3. requiring additional quality assurance reviews;
4. restrictions on the type of work a firm can perform or for taking on new assignments;
5. admonishments, censures, and reprimands;
6. fines/ payments of costs; and
7. suspension of membership/ audit license or expulsion.

Since ALC also issues license to perform audits, it may exercise sanctions through the licensing system by suspending or prohibiting reviewee from performing audits of financial statements.

Where (i) ALC considers that an unsatisfactory conclusion of quality assurance review represents serious failings by the firm or partner, and (ii) there is no mechanism in place to take corrective action under the QAR system to address this unsatisfactory conclusion, a link shall be established between unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.

Actions taken because of unsatisfactory results of quality assurance reviews that constitute disciplinary action will be carried out by the Ethics Committee of the Institute.

5.5.1. Evaluating corrective actions taken by the firm

Where the QAR report sent to the reviewee highlights issues that require rectification, the reviewee shall rectify the issues and notify the Institute of details of such rectifications, or where the issues have not been rectified, the reason for not making such rectification and an estimated date for making such rectification, within 90 (ninety) days from the date of the QAR report or within any other period determined by the ALC, in a manner instructed by the Institute.

5.6. Appeal Process

Where a reviewee is not satisfied with a conclusion reached in the final QAR Report or a Corrective and Disciplinary Action(s) taken against the reviewee regarding the finding(s) of a review, the reviewee may appeal such at the relevant committee of the Institute.