

LUXEMBOURG SUPPLEMENT TO INTERNATIONAL STANDARD ON QUALITY CONTROL 1 QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS (applicable until of December 15, 2022)

Definitions

12. In this ISQC 1, the following terms have the meanings attributed below: [...]

(f) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor's external experts engaged by the firm or by a network firm and internal auditors who provide direct assistance on an engagement.¹.

(i) Listed entity – is, as defined in the Luxembourg supplement to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), entities governed by Luxembourg law whose securities are admitted to trading on a recognized market.

(q) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking an audit engagement, which ordinarily comprise the provisions of the IESBA Code related to an audit of financial statements, together with national requirements that are more restrictive.

In Luxembourg, the firm and its personnel are subject to ethical requirements from three sources: the IESBA Code including the Luxembourg supplement, the Audit Regulation (for Public-Interest entities) and the Audit Law (thereafter the "Luxembourg ethical requirements" or "Luxembourg ethical standards").

12D-1. In Luxembourg, the following terms have the meanings attributed below:

(a) Audit Regulation [AR] – refers to Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014.

(b) Audit Law [AL] – refers to Law of July 23rd, 2016 related to the audit profession.

(c) Competent authority – is defined in Article 1(2) of the Audit Law as "the authorities designated by law that are in charge of the regulation and/or oversight of statutory auditors and audit firms or of specific aspects thereof". In Luxembourg, the competent authority is the CSSF.

¹ The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs – see Luxembourg supplement to ISA 610 (Revised June 2013), paragraph 5-1.

- (d) Key audit partner – is defined in Article 1(1) of the Audit Law as:
- (i) The statutory auditor designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm; or
 - (ii) In the case of a group audit, at least the statutory auditor designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or
 - (iii) The statutory auditor who sign(s) the audit report.
- (e) Public-interest entity – is as defined in Article 1(20) of the Audit Law.
- (f) Statutory audit – is defined in Article 1(6) of the Audit Law as an audit of annual financial statements or annual consolidated financial statements in so far as required by Union law or by national law.

Requirements

Applying, and Complying with, Relevant Requirements

15D-1. The firm shall: [AL/Article 24(2)]

- (a) Take into consideration the scale and complexity of the firm's activities when complying with the applicable requirements set out in paragraphs 16D-1, 16D-2, 20D-1, 21D-1, 29D-1, 29D-2, 32D-1 and 48D-1 of this ISQC 1; and
- (b) Be able to demonstrate to the competent authority that the policies and procedures designed to achieve such compliance are appropriate given the scale and complexity of activities of the firm.

Elements of a System of Quality Control

16D-1. The firm shall establish appropriate policies and procedures to ensure that its owners or shareholders, as well as the members of the administrative, management and supervisory bodies of the firm, or of a network firm, do not intervene in the carrying out of a statutory audit in any way which jeopardizes the independence and objectivity of the engagement team. [AL/Article 24(1)a]

16D-2. The firm shall have:

- (a) Sound administrative and accounting procedures;
- (b) Internal quality control mechanisms that shall be designed to secure compliance with decisions and procedures at all levels of the firm's working structure;
- (c) Effective procedures for risk assessment; and
- (d) Effective control and safeguard arrangements for the firm's information processing systems. [AL/Article 24(1)b]

Relevant Ethical Requirements

20D-1. The firm shall establish appropriate and effective organizational and administrative arrangements for dealing with and recording incidents which have, or may have, serious consequences for the integrity of the firm's activities. [AL/Article 24(1)i)]

Independence

21D-1 The firm shall establish appropriate and effective organizational and administrative arrangements to prevent, identify, eliminate or manage and disclose any threats to the firm's independence required by the Luxembourg ethical standards. [AL/Article 24(1)e)]

Acceptance and continuance of Client Relationships and Specific Engagements

27D-1. Before accepting or continuing an engagement for a statutory audit engagement, the firm shall assess the following:

- (a) Whether the firm complies with relevant independence and objectivity requirements in the Luxembourg ethical standards;
- (b) Whether there are threats to the firm's independence, and the safeguards applied to mitigate those threats;
- (c) Whether the firm has the competent personnel, time and resources needed in order to carry out the audit in an appropriate manner; and
- (d) Whether the key audit partner is approved as statutory auditor in Luxembourg. [AL/Article 22]

27R-2. Before accepting or continuing an engagement for a statutory audit engagement of a public-interest entity, the firm shall assess, in addition to the requirements in paragraph 27D-1, the following:

- (a) Whether the firm complies with the audit fees and the prohibition of the provision of non-audit services requirements in the Luxembourg ethical standards;
- (b) Whether the conditions for the duration of the audit engagement in accordance with the Audit Regulation are complied with; and
- (c) Without prejudice to Luxembourg anti-money laundering requirements,² the integrity of the members of the supervisory, administrative and management bodies of the public-interest entity. [AR/Article 6.1]

² Implemented pursuant to Directive 2015/849/EU of the European Parliament and of the Council of 20 May 2015.

28D-1. For audits of financial statements, where the auditor ceases to hold office as statutory auditor, or ceases to be eligible for appointment as a statutory auditor, the firm shall provide the successor statutory auditor with access to all relevant information concerning the entity, including information concerning the most recent audit. [AL/Article 28(5)]

Human Resources

29D-1. For statutory audits of financial statements, the firm shall:

- (a) Establish appropriate policies and procedures to ensure that the firm's employees and any other natural persons whose services are placed at the firm's disposal or under the firm's control, and who are directly involved in the audit activities, have appropriate knowledge and experience for the duties assigned; and [AL/Article 24(1)c)]
- (b) Have in place adequate remuneration policies, including profit sharing policies, providing sufficient performance incentives to secure audit quality. In particular, the amount of revenue that the firm derives from providing non-audit services to the audited entity shall not form part of the performance evaluation and remuneration of any person involved in, or able to influence the carrying out of, the audit. [AL/Article 24(1)j)]

Outsourcing

29D-2. For statutory audits of financial statements, the firm shall establish appropriate policies and procedures to ensure that outsourcing of important audit functions is not undertaken in such a way as to impair the quality of the firm's internal quality control and the ability of the competent authorities to supervise the firm's compliance with the obligations laid down in the Audit Law and, where applicable, in the Audit Regulation. Any outsourcing of audit functions shall not affect the responsibility of the firm towards the audited entity. [AL/Article 24.1(d)]

Assignment of Engagement Teams

30D-1. For each statutory audit of financial statements, the firm shall:

- (a) Designate at least one key audit partner [AL/Article 25(1)]
- (b) Apply as its main criteria in selecting such a key audit partner:
 - i. Securing audit quality;
 - ii. independence; and
 - iii. competence. [AL/Article 25(1)]

31D-1. For statutory audits of financial statements, the firm shall provide the key audit partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out the firm's duties appropriately. [AL/Article 25(1)]

Engagement Performance

32D-1. For statutory audits of financial statements, the firm shall:

- (a) Establish an internal quality control system to ensure the quality of the audit which shall at least cover the policies and procedures required by paragraph 32D-1(c); [AL/Article 24(1)g)]

- (b) Ensure that responsibility for the internal quality control system lies with a person who is qualified as a statutory auditor; [AL/Article 24(1)g]]
- (c) Establish adequate policies and procedures for carrying out audits, coaching, supervising and reviewing employees' activities and organizing the structure of the audit file³; and [AL/Article 24(1)f)]
- (d) Use appropriate systems, resources and procedures to ensure continuity and regularity in the carrying out of the firm's audit activities. [AL/Article 24(1)h)]

Engagement Quality Control Review

36R-1. For statutory audits of financial statements of public-interest entities, before the auditor's report and the additional report to the audit committee⁴ are issued, the firm shall require that an engagement quality control review shall be performed to assess whether the key audit partner(s) could reasonably have come to the opinion and conclusions expressed in the draft of these reports. [AR/Article 8.1]

39R-1. For statutory audits of financial statements of public-interest entities, the engagement quality control review shall be performed by an engagement quality control reviewer who shall:

- a) Be an approved statutory auditor ("*Réviseur d'entreprises agréé*"); and
- b) Not be involved in the performance of the audit to which the engagement quality control review relates. [AR/Article 8.2]

Where the audit is carried out by a firm and all the statutory auditors of that firm were involved in the conduct of the audit, the firm shall arrange for another firm to perform an engagement quality control review. Documents or information disclosed to the engagement quality control reviewer for this purpose shall be subject to professional secrecy. [AR/Article 8.3]

Differences of Opinion

43R-1. For statutory audits of financial statements of public-interest entities, the firm shall establish procedures for determining the manner in which any disagreement between the key audit partner(s) and the engagement quality control reviewer are to be resolved. [AR/Article 8.6]

³ ISA 230, paragraph 14 sets out the requirement to assemble the audit documentation in an audit file. Paragraph 57D-1 of this ISQC 1, paragraphs 24D-1(b) and 25R-2 of ISA 220, paragraphs 8D-1 and 14D-1 of ISA 230 and paragraph 23D-1 of ISA 260 (Revised) set out requirements in respect of documentation for statutory audits.

⁴ ISA 260 (Revised), "Communication with Those Charged with Governance," paragraph 16R-1 deals with the auditor's responsibilities to prepare an additional report to the audit committee.

Engagement Documentation

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

46. For the purpose of Luxembourg, the paragraph 46 is replaced by the following:
The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, professional secrecy, integrity, accessibility and retrievability of engagement documentation or any information entrusted to the firm, in accordance with applicable laws and regulations. [AL/Article 28]

Monitoring

Monitoring the firm's quality control policies and procedures

48D-1. For statutory audits of financial statements, the firm shall:

- (a) Monitor and evaluate the adequacy and effectiveness of the firm's systems, internal quality control mechanisms and arrangements established in accordance with this ISQC 1 and take appropriate measures to address any deficiencies;
- (b) Carry out an annual evaluation of the internal quality control system, referred to in paragraph 32D-1(a); and
- (c) Keep records of the findings of the evaluation required by paragraph 48D-1(a) and any proposed measure to modify the internal quality control system. [AL/Article 24(1)k]

External monitoring of Group Audits

48D-2. Where the group auditor is subject to a quality assurance review or an investigation concerning a group audit, the firm shall be responsible for complying with, and shall establish policies and procedures which require the group engagement team to comply with, any request by the competent authority:

- (a) For relevant audit documentation retained by the group engagement team concerning the work performed by any component auditor for the purposes of the group audit (including any relevant component auditor's working papers relevant to the group audit);
- (b) To deliver any additional documentation of the work performed by any component auditor from a non-EEA member state for the purposes of the group audit, including that component auditor's working papers relevant to the group audit, where the competent authority is unable to obtain audit documentation of the work carried out by that component auditor. [AL/Article 34(4)]

48D-3. The firm shall establish policies and procedures, which require that, in order to comply with any request under paragraph 48D-2(b), the group engagement team shall either:

- (a) Retain copies of the documentation of the work carried out by the relevant component auditor for the purpose of the group audit (including the component auditor's working papers relevant to the group audit); or
- (b) Obtain the agreement of the relevant component auditor that the group engagement team shall have unrestricted access to such documentation on request; or

- (c) Retain documentation to show that the group engagement team has undertaken the appropriate procedures in order to gain access to the audit documentation, together with evidence supporting the existence of any impediments to such access; or
- (d) Take any other appropriate action. [AL/Article 34(4)]

Complaints and allegations

55D-1. For statutory audits of financial statements, the firm shall keep records of any complaints made in writing about the performance of the audits carried out. [AL/Article 25(6)]

Documentation of the System of Quality Control

57D-1. For statutory audits of financial statements, the firm shall retain any other data and documents that are of importance for monitoring compliance with this ISQC 1 and other applicable legal requirements. [AL/Article 25(5)]

57D-2. For statutory audits of financial statements, the firm shall document:

- (a) Whether the firm complies with the independence and objectivity requirements in the Luxembourg ethical standards;
- (b) Whether there are threats to the firm's independence, and the safeguards applied to mitigate those threats;
- (c) Whether the firm has the competent employees, time and resources needed in order to carry out the audit in an appropriate manner; and
- (d) Whether the key audit partner(s) is approved as a statutory auditor. [AL/Article 22]

58R-1. For statutory audits of financial statements, the firm shall establish policies and procedures that require retention of audit documentation for a period that is not less than any period necessary to satisfy the requirements of any applicable laws or regulation relating to data protection and to meet the requirements for any applicable administrative and judicial proceedings, and that is in any case not less than five years from the date of the auditor's report. [AR/Article 15]

59D-1. For statutory audits of financial statements, the firm shall:

- (a) Keep records of any breaches of professional standards and applicable legal and regulatory requirements;
- (b) Keep records of any consequences of any breach recorded in accordance with paragraph 59D-1(a), the measures taken to address such a breach and to modify the firm's internal quality control system; and
- (c) Prepare an annual report containing an overview of any measures taken under paragraph 59D-1(b) and communicate that report internally. [AL/Article 25(3)]

59D-2. For statutory audits of financial statements, the firm shall maintain a client account record which include in respect of every statutory audit:

- (a) The audited entity's name, address and place of business;
- (b) The name of the key audit partner or, where there is more than one key audit partner, the names of all the key audit partners; and



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(c) The fees charged for the statutory audit and fees charged for other services in any financial year. [AL/Article 25(4)]