

LUXEMBOURG SUPPLEMENT TO INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENT

Definitions

16. In this ISQM 1, the following terms have the meanings attributed below: [...]

- (j) 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.
- (t) Relevant ethical requirements – 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").

16D-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.
- (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.

System of Quality Management

19D-1. 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)]

Specified Responses

34 (f) The paragraph is completed as follows:

(iv). Audits of financial statements of public-interest entities

34D-1. The firm shall include the following responses:

Relevant Ethical Requirements

- (a) 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)]
- (b) The firm establishes appropriate and effective organizational and administrative arrangements:
 - (i) For dealing with and recording incidents which have, or may have, serious consequences for the integrity of the firm's audit. [AL/Article 24(1)i)]
 - (ii) To prevent, identify, eliminate or manage and disclose any threats to the firm's independence required by the Luxembourg Ethical Standard. [AL/Article 24(1)e)]

Acceptance and Continuance of Client Relationships and Specific Engagements

- (c) Before accepting or continuing an engagement for a statutory audit engagement, the firm assesses:
 - (i) Whether the firm complies with relevant independence and objectivity requirements in the Luxembourg Ethical Standard;
 - (ii) Whether there are threats to the firm's independence, and the safeguards applied to mitigate those threats;
 - (iii) Whether the firm has the competent personnel, time and resources needed in order to carry out the audit in an appropriate manner; and
 - (iv) Whether the key audit partner is eligible for appointment as a statutory auditor. [AL/Article 22]
- (d) Before accepting or continuing an audit engagement for a statutory audit engagement of a public-interest entity, the firm shall assess, in addition to the requirements in letter (c), the following:

- (i) Whether the firm complies with the audit fees and the prohibition of the provision of non-audit services requirements in the Luxembourg Ethical Standard;
 - (ii) Whether the conditions for the duration of the audit engagement in accordance with the Audit Regulation are complied with; and
 - (iii) Without prejudice to Luxembourg anti-money laundering requirements¹, the integrity of the members of the supervisory, administrative and management bodies of the public interest entity.
- (e) 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 provides the successor statutory auditor with access to all relevant information concerning the entity, including information concerning the most recent audit. [AL/Article 28(5)]

Engagement Performance

- (f) For statutory audits of financial statements, the firm:
- (i) Establishes an internal quality control system to ensure the quality of the audit which covers at least the policies and procedures required by paragraph 34D-1(f)(iii) [AL/Article 24(1)g)];
 - (ii) Ensures that operational responsibility for the internal quality control system lies with a person who is qualified as a *réviseur d'entreprises agréé* (approved statutory auditor) [AL/Article 24(1)g)];
 - (iii) Establishes appropriate policies and procedures for carrying out audits, coaching, supervising and reviewing the activities of the firm's personnel and organizing the structure of the audit file² [AL/Article 24(1)f)]; and
 - (iv) Uses 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 Performance – Differences of Opinion

- (g) 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]

Engagement Performance— External Monitoring of Group Audits

- (h) Where the firm 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

¹ Implemented pursuant to Directive 2015/849/EU of the European Parliament and of the Council of the 20 May 2015

² ISA 230, paragraph 14 sets out the requirement to assemble the audit documentation in an audit file. Paragraph 58D-1 (a)-(b) of this Luxembourg supplement to ISQM 1, paragraphs 30R-2(a) of ISQM2, 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.

and procedures which require the group engagement team to comply with, any request by the competent authority:

- (i) 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);
 - (ii) To deliver any additional documentation of the work performed by any component auditor 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)]
- (i) The firm shall establish policies and procedures, which require that, in order to comply with any request under paragraph 34D-1(h)(ii), the group engagement team shall either:
- (i) 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
 - (ii) Obtain the agreement of the relevant component auditor that the group engagement team shall have unrestricted access to such documentation on request; or
 - (iii) 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
 - (iv) Take any other appropriate action. [AL/Article 34(4)]

Resources—Human Resources

- (j) The firm:
- (i) Establishes appropriate policies or procedures that ensure that the firm's personnel and any other individuals whose services are placed at the firm's disposal or under the firm's control, and who are directly involved in audit activities, have appropriate knowledge and experience for the duties assigned [AL/Article 24(1)c)]; and
 - (ii) Has in place adequate remuneration policies, including profit-sharing policies, providing sufficient performance incentives to secure audit quality, including provision that 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)].
- (k) For each statutory audit of financial statements, the firm:
- (i) Designates at least one key audit partner; [AL/Article 25(1)]
 - (ii) Applies as its main criteria in selecting such a key audit partner the need to secure:
 - a. The quality of the audit; and
 - b. The firm's independence and competence in carrying out the audit [AL/Article 25(1)];
 - (iii) Ensures the key audit partner is actively involved in carrying out the audit.

- (l) For statutory audits of financial statements, the firm provides 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)].

Resources—Service Providers

- (m) The firm establishes appropriate policies or procedures that 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 authority 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)]

Information and Communication

- (n) The firm shall establish policies or 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]

34D-2. When complying with the requirements set out in paragraphs 19D-1, 34D-1, 35D-1, 56D-1 and 58D-1(d)(ii) the firm shall:

- (a) Take into consideration the scale and complexity of the firm's activities; and
- (b) Be able to demonstrate to the competent authority that the firm's policies and procedures designed to achieve compliance with the applicable requirements of this Luxembourg supplement to ISQM1 are appropriate given the scale and complexity of the firm's activities.

Monitoring and Remediation Process

35D-1. For statutory audits of financial statements, the firm shall monitor and evaluate the adequacy and effectiveness of the firm's systems, internal quality control mechanisms and arrangements established in accordance with this Luxembourg supplement to ISQM1 and take appropriate measures to address any deficiencies.

Evaluating the System of Quality Management

56D-1. For statutory audits of financial statements, the firm shall carry out an annual evaluation of the internal quality control system, referred to in paragraph 34D-1(f)(i).

Documentation

58D-1. For statutory audits of financial statements, the firm shall:

- (a) Retain engagement documentation that is important for monitoring compliance with this Luxembourg supplement to ISQM1 and other applicable legal requirements [AL/Article 25(5)];

(b) Document:

- (i) Whether the firm complies with the independence and objectivity requirements as set out in the relevant ethical requirements;
- (ii) Whether there are any threats to the firm's independence, and the safeguards applied to mitigate those threats;
- (iii) Whether the firm has the competent personnel, time and resources needed in order to carry out the audit in an appropriate manner; and
- (iv) Whether the key audit partner(s) is eligible to be appointed as a statutory auditor. [AL/Article 22]

(c) Maintain a client account record which includes in respect of every statutory audit:

- (i) The audited entity's name, address and place of business;
- (ii) 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
- (iii) The fees charged for the statutory audit and for other services in any financial year [AL/Article 25(4)].

(d) Keep records of:

- (i) Any complaints made in writing about the performance of the audit engagements carried out [AL/Article 25(6)];
- (ii) The findings of the evaluation required by paragraph 56D-1 and any proposed measure to modify the internal quality control system [AL/Article 24(1)k)];
- (iii) Any breaches (other than breaches which the firm reasonably considers to be minor breaches) of professional standards and applicable legal and regulatory requirements; and
- (iv) Any consequences of any breach recorded in accordance with paragraph 58D-1(d)(iii), the measures taken to address such a breach and to modify the firm's internal quality control system; and

(e) Prepare an annual report containing an overview of any measures taken under paragraph 58-1(d)(iv) and communicate that report internally.

60R-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 six years from the date of the auditor's report. [AR/Article 15]