

# LESOTHO INSTITUTE OF ACCOUNTANTS (LIA) QUALITY ASSURANCE REVIEW MANUAL



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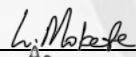

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## 1. PREFACE

- 1.1. The Accountants Act 1977 (“the Act”) requires the Lesotho Institute of Accountants (“the Institute”) to monitor and supervise its members in order to protect the public interest. In performing this mandate, the Institute carries out quality assurance reviews of Audit Firms and the partners in order to promote the highest standards of professional ethics and business conduct and enhance the quality of services offered by professional accountants. The Institute is also a member of the International Federation of Accountants (IFAC) and is therefore committed to complying with the IFAC Statement of Member Obligations (**SMOs**) which requires it to implement a mandatory audit quality assurance review system for Firms performing audits of financial statements.
- 1.2. This document, to be referred to as the “**Quality Assurance Review Manual**”, establishes the process to be followed in performing Audit quality assurance reviews. Audit Firms shall be reviewed for compliance with the applicable quality management standard and the Money Laundering and Proceeds of Crimes Act, 2008 as amended and its regulations.
- 1.3. Quality assurance reviews will be conducted in line with the requirements of the applicable quality management standards and procedures will include evaluation of the systems implemented by the Firm for compliance with the International Standards on Quality Management, IESBA Code of Ethics, the rules, regulations and bylaws of the institute, and all relevant laws and regulations applicable in Lesotho. Procedures will also include a review of specific engagement files against requirements per the relevant framework and compliance with internally set (Firm) quality assurance review processes.

## 2. SCOPE

- 2.1 The Quality review is intended to evaluate quality management that a firm has applied to ensure audit work performed and reports issued are appropriate in the circumstances. The International Standards on Quality Management (ISQM) 1 & 2 have been taken as the best framework against which a firm's quality management should be measured.
- 2.2 The Quality Assurance Review aims at ensuring the application of the requirements of relevant International Standards on Auditing (ISAs) and assess compliance of the audit Firm engagement documentations and reports with relevant frameworks. Furthermore, the quality assurance review serves as an inspection towards compliance with the Money Laundering and Proceeds of Crimes Act 2008 as amended, as they have been identified in the above-mentioned Act as "*Accountable Institutions and Auditors*".
- 2.3 This document sets out the processes through which the Lesotho Institute of Accountants (LIA) will carry out quality assurance reviews on Audit Firms performing audits of financial statements in Lesotho.
- 2.4 Quality assurance review shall be performed at two levels:
- The Firm Quality Management Review and
  - The Engagement Performance Review
- 2.5 Audit Quality Reviews Contribute to Enhanced Audit Quality
- i. To maintain their licensure, all professional audit firms must participate in a quality review program administered on a Cycle basis by the LIA.
  - ii. The review program provides a mechanism for the LIA to verify that audit firms design and maintain systems of quality management and perform high-quality engagements.
  - iii. The Audit Quality Review function will have the power to refer members or practicing firms for further action under the Investigation and Discipline processes. Such cases include but not limited to:
    - (a) Serious deficiencies in the firm's systems of quality management,
    - (b) Serious deficiencies in the performance of audit work at engagement level,
    - (c) Serious breaches of IFAC Code of Ethics for Professional Accountants.

### **3. QUALITY REVIEW FRAMEWORK**

3.1 The implementation of an appropriate system of quality management is the responsibility of the partners and their audit Firms.

Partners and their Audit Firms are required to:

- a) Adhere to the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and
- b) Implement a system of quality management for audit, review, other assurance engagements, and related services, in accordance with International Standards on Quality Management (ISQM) 1 and ISQM 2. ISQM 1 provides guidance on the elements that shall be addressed by the policies and procedures of the systems of quality management established by audit Firms and partners. ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.

3.2 Partners and their Audit Firms are responsible for designing and implementing policies and procedures that comply with ISQM 1, with eight interrelated components dealing with the key aspects of a system of quality management.

3.3 The quality assurance review system will monitor compliance with policies and procedures related to the designed and implemented system of quality management through:

- a) Gaining insights and sufficient understanding of the culture and risk environment of each Firm.
- b) Considering the degree to which the resulting system of quality management has been designed and implemented to effectively identify, assess and manage risks towards achieving quality.
- c) The quality assurance review system will also monitor compliance with International Standards on Auditing and that the audit reports issued are appropriate. It shall test a reasonable cross section of the audit firm's audit engagements with a focus on higher risk engagements.
- d) An audit practice review is risk based and not designed to test every engagement or compliance with every professional standard and every detailed component of the audit firm's system of quality management, but to rather recognize the areas of high risk which may lead to inappropriate reports.

## 4. RESPONSIBILITY OF THE INSTITUTE

### The Lesotho Institute of accountants shall:

- 4.1 Evaluate corrective actions taken by partners and their audit Firms with regard to the results and recommendations of previous quality assurance reviews;
- 4.2 Report the conclusions of each quality assurance review to appropriate individuals in a manner that assists the firm to:
  - (i) identify and implement any necessary corrective actions, and
  - (ii) make other desirable improvements in their quality management policies and procedures;
- 4.3 Impose, where applicable, additional corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each Partner;
- 4.4 Maintain the confidentiality of client information;
- 4.5 Ensure the quality assurance review team complies with all fundamental principles as outlined in the International Code of Ethics for Professional Accountants.

## 5. REVIEW CYCLE

- 5.1 A cycle-based approach for selecting Firms for quality assurance review shall be adopted  
The cycle shall be as follows:
  - a. A cycle of a maximum of two years shall be adopted when a firm performs audits of financial statements of Public Interest Entities (PIE);
  - b. A cycle of a maximum of six years shall be adopted for other firms
  - c. A year after a failed/unsatisfactory review.
  - d. For new Audit Firms, a period of two years from the date of admission shall be allowed before they are reviewed to give way for the establishment of quality management policies and procedures.
- 5.2 After the first full quality assurance review performed by the Institute, all firms (Public and Non-Public Interest Auditors) shall be subjected to quality review within a year. The only corrective measure to be imposed by the institute for the attainment of unsatisfactory results at this stage shall be "**Action Plan for improvement**" and to be provided within 30 days of the

Professional Standards and Quality Review Committee report. Other penalties shall be applied where the firm/partner was not cooperative during the review process which resulted in the scope limitation.

- 5.3 A Firm that has attained unsatisfactory results in the first, second, and third review consecutively shall be referred to the disciplinary committee.

## 6. SELECTION CRITERIA

6.1 LIA shall adopt a risk-based approach to the selection of firms for review visits. The risk factors to be considered include:

- i. Number of clients that are PIEs;
- ii. Circumstances of the firm and its clients
- iii. Results of previous audit review visits including;
  - a. Deficiencies in the design of or compliance with the firm's SOQM;
  - b. Independence breaches of IFAC Code of Ethics; and
- iv. Significant failures to comply with CPD obligations.

6.2 LIA shall communicate with the firm's contact partner at least 6-8 weeks in advance of the proposed visit. In the communication shall explain the purpose of the visit, the procedures to be followed, the date and starting time and the likely length of the visit.

6.3 A confirmation letter shall be sent to the firm once a visit has been booked.

6.4 Accompanying the letter shall be a list of all the information that the firm should have ready for inspection during the visit.

### 6.5 Cancellation of Appointment:

- I. Should the firm or any party connected with the firm, cancel an appointment for an audit practice review after the engagement letter has been sent, the regulator shall charge a cancellation fee, payable upon cancellation, at a rate equivalent to the **Annual Practice Fee** approved from time to time through Regulations/bylaws.
- II. The proposed rescheduled date must be within 30 calendar days following the originally scheduled date.
- III. In the event of further postponement requests, the practitioner will incur a penalty equal to twice the Annual Practice Fee, as approved periodically. This penalty represents the final opportunity for postponement.
- IV. If the practitioner fails to cooperate during the final appointment, the matter will be referred to the disciplinary committee. Should the practitioner be found guilty, their practice license will be revoked.



- V. Failure to pay the aforementioned penalty within 7 days will result in disciplinary action and eventual license revocation.
- VI. Upon revocation of a license, all necessary steps will be taken to inform the public of the membership cancellation.

6.6 The following documents shall be sent to the firm for completion upon establishment of the time of the review and the firm shall return the completed documents electronically **two weeks** before the start of the review:

- a. Mapping of ISA to firm audit methodology
- b. Firm inspection requirements
- c. LIA ISQM Questionnaire and
- d. Engagement Letter.

## 7. QUALITY REVIEW PROCESS

7.1 Each personnel with access to the audit Firm documents of a Partner under review or the quality review file shall be required to sign an **independence and confidentiality** declaration document prior to the commencement of work.

7.2 On the commencement date of quality review, the following signed documents shall be obtained from Partners;

- List of Client
- Partner's CV
- Any other information deemed necessary.

7.3 7.3 Client lists received from firms

Client lists received from firms should always indicate the following minimum information:

- i. Client name
- ii. Industry
- iii. Audit hours
- iv. Audit fee
- v. Non-audit fee
- vi. PIE (Yes/No)
- vii. Listed or related to listed entity (Yes/No)
- viii. Most recent year-end for which an audit report was signed.

7.4 Number of files to review

- i. Sole practitioners—at least two files
- ii. Medium practice (2 to 5 partners); at least one file per partner
- iii. Larger practices (above 5 partners) at least one file per partner with more files for partners with a large number of high risk clients

- iv. Results of previous reviews on individual partners will also be considered in determining the number of files for the partner to be reviewed

7.5 The Partner shall be informed of the findings as and when they come during the audit.

7.6 **Firm Quality Management Reviews Findings**

The draft findings report shall be discussed with the responsible persons within the firm on the last day of the firm review. The comments to the findings report must be submitted within **10 working days**.

The findings shall be rated as **Low, medium, or high**. A finding or combination of findings from medium upwards, which, in the reviewer's opinion, indicates substantial non-compliance with ISQM 1, making the issuance of an inappropriate audit report likely, shall be deemed a significant deficiency and shall result in a recommendation for a re-review.

7.7 **Engagement Reviews Findings:**

A list of all findings in a reviewed file shall be recorded on the Findings Report and the rating of each finding shall be recorded.

7.7.1 Rating of Review Findings

**I. Satisfactory**

- 1. No issues.
- 2. Documented non-compliance with standards, laws and regulations or policies and procedures but risk of inappropriate audit opinion is unlikely.

**II. Not Satisfactory**

- 1. Significant issues of non-compliance with standards, laws and regulations or policies and procedures. Risk of inappropriate audit report is unknown.
- 2. Significant issues of non-compliance with standards, laws and regulations or policies and procedures. Risk of inappropriate audit opinion is **likely**.

**III. Referral to Disciplinary Committee**

Fundamental non- or inadequate documentation and inappropriate audit opinion has **probably** been expressed.

## 8. FINAL MEETING WITH PRACTITIONERS

### 8.1 Engagement Review

The engagement reviews related final meetings with practitioners will be held before the planned final meeting with firm on the firm quality control review. These final meetings with the engagement practitioners should be arranged at least a day before the final meeting on firm quality control findings.

### 8.2 Closing meeting

A closing meeting shall be held with the partner who is in charge of the firm's compliance at the end of the visit. The purpose of the meeting shall be to:

- i. Give an indication of when the practice should expect the written report on the visit;
- ii. Discuss and summarize the main findings arising from the visit;
- iii. Explain the main deficiencies arising on each audit file;
- iv. Suggest ways in which the firm may improve their audit procedures in future;
- v. Provide the firm with an opportunity to correct any misunderstandings and refute any criticism; and

### 8.3 Summary of Findings and Meetings

- i. The Secretariat shall prepare a summary of findings (without names) for presentation to the Professional Standards and Quality Review Committee with appropriate recommendations.
- ii. A written report will be produced for each visit without exception, summarizing the findings of the visit;
- iii. The report will list all deficiencies noted in audit work. It will deal only with weaknesses and not strengths and will provide recommendations for improvements;
- iv. The report will be available to the firm **within six weeks** of the visit taking place;
- v. Every firm shall be required to confirm receipt of the report and indicate the action that they are taking to rectify matters.
- vi. The Secretariat shall follow-up on the response for an action plan from the Partner and ensure the action plan is received within **30 days** from the date the letter of request for an action plan was issued.
- vii. The PSQAC may refer a firm to the disciplinary committee where applicable.
- viii. The Secretariat shall then prepare a report summarising the recommendations of the Professional Standards and Quality Review Committee to be presented to the Council, in the next Council meeting, **for noting.**

## 9. REGULATORY ACTION

- IV. Referral to the Disciplinary Committee is done where the practitioner has been re-reviewed and there is no evidence of effort to improve, OR
- V. After the first review in a cycle, there is very high risk rating arising from non- or inadequate documentation and an inappropriate audit opinion has probably been expressed.
- VI. If a firm is found to have made little or no improvement in its level of compliance with ISAs and its ISQM policies and procedures are still inadequate after a re-review visit, then LIA shall take regulatory action against the firm.
- VII. Firms in this situation shall be referred to Professional Standards and Quality Review Committee, which may take any of, or a combination of the following actions:
  - v. Require practitioners and staff to undertake additional training or CPD at their own expense;
  - vi. Request and obtain an undertaking from the firm that new systems will be implemented;
  - vii. Order an early follow up visit at the firm's own cost to assess the level of progress made since the last monitoring visit;
  - viii. Restrict the type of audit clients the firm is allowed to audit e.g. no PIE clients etc.;
  - ix. Prevent practitioners taking on new audit clients until a satisfactory outcome is achieved;
  - x. Impose conditions on a firm's auditing certificate e.g. a certain number of audit files to be subject to external review before the audit report is signed off (hot / pre-issuance review). The reviewer will be chosen or approved by the LIA;
  - xi. Recommendation to fine the firm;
  - xii. Recommendation to remove the firm from the list of practicing firms.
  - xiii. Recommendation for suspension of partners from PAO membership; and
  - xiv. Recommendation for the expulsion of principals from PAO membership.
- VIII. Role of the Quality assurance review team

The role of the Quality assurance review team is not to discipline members. They are responsible for reviewing compliance with ISAs and with ISQM. All disciplinary and policy matters will be dealt with initially by the Professional Standards and Quality Review Committee and then if required, referred to Investigation and Disciplinary Committee.

## 10. DOCUMENT RETENTION

Quality review documents shall be maintained electronically for a minimum period of 10 years.

## 11. QUALITY ASSURANCE REVIEW PROCEDURES

The procedures performed during the quality assurance review shall include but not limited to:

### 11.1 *Pre-visit planning*

The pre visit entails the following;-

- i) Assessing firm practice review risk
- ii) Planning the firm visits
- iii) Scheduling the initial meeting of the practice review. All partners of the firm need to be present where possible.
- vii) Prepare confidentiality declarations by all the audit practice reviewers.
- viii) *Entrance Meeting:* Quality assurance review team leader and his/her team shall conduct an entrance/opening meeting with the Firm, to discuss the quality assurance review process and steps to be followed during the review process.

### 11.2 *Understanding the Partner's Firm:* The Quality assurance review team shall, amongst others;

- a. Understand the nature and extent of the Partner's firm's audit Firm and methodology;
- b. Understand the firm's ethical and independence policies and procedures; and
- c. Understand the firm's recruitment and training policies and procedures;

### 11.3 *Assessment of the System of Quality Management:* Quality assurance review team shall assess the design and effectiveness of the system of quality management in the Partner's firm relating to the audits of financial statements.

### 11.4 *Review of the Quality Management Policies and Procedures, and Reviews of Audit Working Papers:* The Quality assurance review team shall review the quality management policies and procedures and the audit working papers of the sampled audit clients of the Partner under review to ensure;

- i. the effective functioning of the implemented system of quality management and the Partner's compliance with the system;
  - ii. the Partner's compliance with professional standards and regulatory and legal requirements relevant to the audit of financial statements in Lesotho;
  - iii. the Partner's compliance with relevant, applicable accounting and auditing framework, including an assessment of compliance with the International Standards on Auditing (ISAs), International Financial Reporting Standards (IFRS), International Financial Reporting Standards for SMEs (IFRS for SME's) as may be applicable; and,
  - iv. the sufficiency and appropriateness of evidence documented in the working papers to support the audit opinion.
- 11.5 ***Assessment of the Appropriateness of Audit Reports and Opinions thereof:*** Based on the results and finding of the above procedures performed, the team shall assess whether or not the audit reports and the opinions thereof are appropriate in the circumstances.
- 11.6 ***Test of the Reliability of the Partner's Firm's Monitoring Process:*** The Quality assurance review team shall determine whether or not reliance could be placed, or the quality assurance reviewer could rely, on the effectiveness of the Partner's firm's monitoring processes in place, for the period under review, by testing the effectiveness of the Partner's firm's monitoring processes and procedures including such tests necessary to conclude on the effectiveness of the monitoring processes and procedures in the applicable period, as a source of evidence.
- 11.7 ***Reassessing the Adequacy of the Scope of the Quality Assurance Review:*** the Quality assurance review team shall reassess the adequacy of the scope of the quality assurance review in the circumstance by evaluating the results to determine whether additional procedures are necessary to support or reach a conclusion.
- 11.8 ***Closing Meeting:*** the Quality assurance review team shall hold a closing meeting with the Firm to discuss the quality assurance review findings, results, conclusions, recommendations, and the type of report to be issued as at the date of the closing meeting, taking into consideration the findings and result of procedures performed; and provide the Partner with written conclusions and recommendations for corrective actions.

## **12. REPORTING**

### **12.1 Finding Report**

- i. The Secretariat shall prepare a summary of findings (without names) for presentation to the Professional Standards and Quality Review Committee with appropriate recommendations.
- ii. A written report will be produced for each visit without exception, summarizing the findings of the visit;
- iii. The PSQAC may refer a firm to the disciplinary committee where applicable.
- iv. The Secretariat shall then prepare a report summarising the recommendations of the Professional Standards and Quality Review Committee to be presented to the Council, in the next Council meeting, for noting.

### **12.2 Annual Reporting**

LIA shall produce an annual report on the activities of the Quality Assurance Review Team and the audit quality review process in order to demonstrate transparency in the overall process.

#### **The report will cover:**

- i) Summary of activities undertaken in the year;
- ii) Details of the roles of the Quality assurance review team and the Professional Standards and Quality Review Committee and Disciplinary Committee
- iii) Summary of results of review visits carried out in the year (without mentioning firm/ member names); and
- iv) Summary of referrals to the responsible Governance Committee (without mentioning firm/ member names).

## **13. APPEAL**

- 13.1 If new information has become available which indicates that the decision made by the Professional Standard and Quality Assurance Committee (PSQAC) and the opinion issued on the Quality Assurance Review Report was without sufficient documented evidence of facts that were in existence during the Quality Assurance Review, the aggrieved engagement partner may in writing appeal to the Chief Executive within six weeks (forty-two (42) calendar days) from the date of notification of the PSQAC Report, of such information.

- 13.2 If sufficient evidence, supported by appropriate documents, is made available that warrants a reconsideration of the previous decision of the PSQAC, the request shall be presented at the next PSQAC meeting for reconsideration. The new information should have been in existence at the time of the Quality Assurance Review and at the time the opinion was issued.
- 13.3 Where a matter had been referred to the disciplinary committee and the firm is not satisfied with the results of the disciplinary committee then an appeal can be launched with the high court within 21 days of the verdict being received by the firm/ partner.
- 13.4 If the aggrieved engagement partner is not satisfied with the PSQAC decision, an appeal can be launched with the Council through the Chief Executive within 30 calendar days of the committee's decision.





## 14. ANNEXUTE 1: DEFINITIONS

**Firm** — means a sole Firm, partnership, limited liability company or body corporate whose partners are issued practicing certificates by the Institute.

**Partner**—any individual with authority to bind the Firms /Firm with respect to the performance of a professional services engagement, as defined by the IAASB.

**Public Interest Entities**—as defined in the Firm bylaws of the Lesotho Institute of Accountants.

**Quality assurance review**—a review to determine whether the partner is subject to, or the Firm has, (i) an adequate system of quality management, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements.

**Quality assurance review team**—individual(s), including the quality assurance review team leader, employed, or engaged to perform a quality assurance review.

**System of quality management**— a system designed, implemented, and operated by a Firm to provide the Firm with reasonable assurance that: (i) the Firms and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and (ii) engagement reports issued by the Firm or engagement partners are appropriate in the circumstances.

***This manual shall be reviewed and revised annually to ensure it is in line with the relevant framework and changing environment.***